

STATE *of* TEXAS



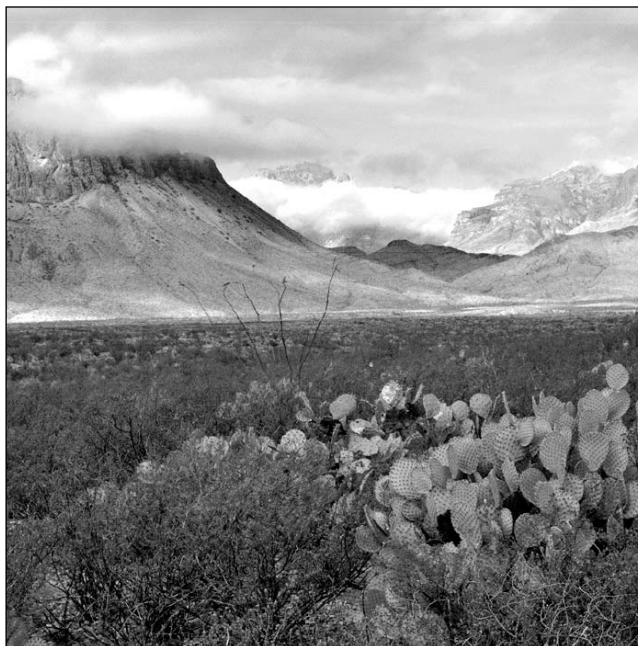
COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT

FISCAL YEAR ENDED  
AUGUST 31, 2006

Susan Combs, Texas Comptroller



STATE *of* TEXAS



COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT

FISCAL YEAR ENDED  
AUGUST 31, 2006

Susan Combs, Texas Comptroller

## ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by the Texas Comptroller of Public Accounts, Financial Reporting Section with assistance from other sections within the Fiscal Management Division.

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Special appreciation to:

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Divisions of the Texas Comptroller of Public Accounts  
for their valued input into this Comprehensive Annual Financial Report:  
Revenue Analysis; Quick Copy Staff

# STATE OF TEXAS

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2006

### TABLE OF CONTENTS

---

#### INTRODUCTORY SECTION

Letter of Transmittal . . . . .	3
Elected State Officials . . . . .	11
Government Structure of Texas . . . . .	12
Certificate of Achievement . . . . .	14

#### FINANCIAL SECTION

Independent Auditor's Report . . . . .	17
--	----

#### Management's Discussion and Analysis

Management's Discussion and Analysis . . . . .	21
--	----

#### Basic Financial Statements

Government-wide Financial Statements	
Statement of Net Assets . . . . .	36
Statement of Activities . . . . .	38
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet . . . . .	40
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets. . . . .	41
Statement of Revenues, Expenditures, and Changes in Fund Balances . . . . .	42
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities . . . . .	43
Proprietary Fund Financial Statements	
Statement of Net Assets. . . . .	44
Statement of Revenues, Expenses, and Changes in Fund Net Assets . . . . .	46
Statement of Cash Flows. . . . .	48
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets . . . . .	50
Statement of Changes in Fiduciary Net Assets . . . . .	51
Notes to Financial Statements . . . . .	53

#### Required Supplementary Information Other Than MD&A

Budgetary Comparison Schedule . . . . .	126
Modified Approach to Reporting Infrastructure Assets . . . . .	129

## Other Supplementary Information – Combining Financial Statements and Schedules

### Governmental Funds

Nonmajor Governmental Funds	
Combining Balance Sheet . . . . .	137
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances . . . . .	138
Nonmajor Special Revenue Funds	
Combining Balance Sheet . . . . .	140
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances . . . . .	141
Budgetary Comparison Schedule . . . . .	142
Nonmajor Debt Service Funds	
Combining Balance Sheet . . . . .	146
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances . . . . .	148
Nonmajor Capital Projects Funds	
Combining Balance Sheet . . . . .	152
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances . . . . .	154
Nonmajor Permanent Funds	
Combining Balance Sheet . . . . .	158
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances . . . . .	159

### Enterprise Funds

Nonmajor Enterprise Funds	
Combining Statement of Net Assets . . . . .	164
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets . . . . .	168
Combining Statement of Cash Flows . . . . .	172
Colleges and Universities – Major Enterprise Fund	
Schedule of Net Assets . . . . .	178
Schedule of Revenues, Expenses, and Changes in Fund Net Assets . . . . .	182
Schedule of Cash Flows . . . . .	186

### Fiduciary Funds

Pension and Other Employee Benefit Trust Funds	
Combining Statement of Fiduciary Net Assets . . . . .	194
Combining Statement of Changes in Fiduciary Net Assets . . . . .	196
External Investment Trust Funds	
Combining Statement of Fiduciary Net Assets . . . . .	200
Combining Statement of Changes in Fiduciary Net Assets . . . . .	201
Private-Purpose Trust Funds	
Combining Statement of Fiduciary Net Assets . . . . .	204
Combining Statement of Changes in Fiduciary Net Assets . . . . .	205
Agency Funds	
Combining Statement of Fiduciary Net Assets . . . . .	209
Combining Statement of Changes in Assets and Liabilities . . . . .	210

## Discretely Presented Component Units

Combining Statement of Net Assets . . . . .	216
Combining Statement of Activities . . . . .	222

## STATISTICAL SECTION

### Financial Trends

Net Assets by Component . . . . .	229
Changes in Net Assets . . . . .	230
Fund Balances – Governmental Funds . . . . .	232
Changes in Fund Balance – Governmental Funds . . . . .	233

### Revenue Capacity

Texas Gross Sales/Taxable Sales by Industry . . . . .	234
State Tax Collections and Retail Sales . . . . .	235
Total Retail Sales, 1997-2006 . . . . .	235
Texas Gross State Product by Industry . . . . .	236

### Debt Capacity

Legal Debt Margin Information . . . . .	237
Ratio of Outstanding Debt by Type . . . . .	238
Ratio of General Bonded Debt Outstanding . . . . .	239
Pledged Revenue Bond Coverage . . . . .	240

### Demographic and Economic Information

Top 10 Private Employers in Texas . . . . .	241
Texas and U.S. Selected Statistics . . . . .	242
Texas and U.S. Employment and Unemployment Rates . . . . .	242

### Operating Information

Full-Time Equivalent Employees by Function . . . . .	243
Capital Asset Statistics by Function . . . . .	244
Operating Indicators by Function . . . . .	245





# STATE *of* TEXAS



## INTRODUCTORY SECTION



THE NUECES RIVER  
SOUTH TEXAS



February 28, 2007

To the Citizens of Texas, Governor Perry,  
and Members of the 80th Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the State of Texas for the fiscal year ended August 31, 2006, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects and all disclosures necessary for a reasonable understanding of the state's financial activities have been included.

The reporting approach established by the National Council on Governmental Accounting in Statement No. 1 and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The Introductory Section provides this transmittal letter, Elected State Officials, Government Structure of Texas, and the GFOA Certificate of Achievement. (2) The Financial Section includes the auditor's opinion; Management's Discussion and Analysis (MD&A), which provides an introduction

and an overview and analysis of the Financial Statements; the Financial Statements, which present Government-wide Financial Statements for the primary government along with the component units of the State of Texas and Fund Financial Statements for governmental funds, proprietary funds, and fiduciary funds, together with the Notes to Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and Other Supplementary Information, which includes the combining financial statements. (3) The Statistical Section provides various financial, economic, and demographic data about the state.

The State Auditor has performed an audit in accordance with Generally Accepted Auditing Standards of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The State Auditor has contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The Federal Portion of the Statewide Single Audit Report, for the year ended August 31, 2006, with the opinion expressed by the State Auditor's Office, will be issued separately.

## Profile of the Government

This report includes Government-wide Financial Statements and Fund Financial Statements of various departments, agencies, and other organizational units, which are considered part of the State of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by the GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the Notes to Financial Statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the State of Texas is discussed in Note 19.

All activities that would generally be considered part of the State of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits, and teacher retirement benefits.

## Accounting System and Budgetary Controls

The MD&A, in the Financial Section, provides an overview of the state's financial activities addressing both governmental and business-type activities reported in the Government-wide Financial Statements. In addition, MD&A focuses on the state's major funds: the General Fund, State Highway Fund, Permanent School Fund, Colleges and Universities Funds, Texas Water Development Board Funds, and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The state's financial statements for governmental funds, including general, special revenue, debt service, capital projects, and permanent funds, have been prepared on the modified accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The Government-wide Financial Statements (Statement of Net Assets and

Statement of Activities), Proprietary (including Colleges and Universities), Pension and Other Employee Benefit Trust, External Investment Trust, Private-Purpose Trust, and Agency Funds are accounted for on the accrual basis. A summary of the state's significant accounting policies and other necessary disclosures are included in the Notes to Financial Statements.

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections, and the signing of the bill by the Governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in Note 1.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

## Risk Management

The state assumes substantially all risks associated with:

- Claims of state employees for unemployment compensation.
- Claims of state employees covered by the state self-insured health care plan, Health Select.
- Claims of covered employees for workers' compensation benefits.
- General tort claims that parties may file against the state or its officials, employees, or appointees.

- Liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

## **Pension and Other Employee Benefit Trust Funds**

The State of Texas contributes to five pension plans: Teacher Retirement System, Employees Retirement System, two Judicial Retirement Systems, and the Law Enforcement and Custodial Officer Supplemental Retirement Fund. The state also administers and contributes, as required by statute, to the Fire Fighters' Relief and Retirement Fund. The other employee benefit trust funds include the Deferred Compensation Trust Fund, the State Employee Cafeteria Plan Trust Fund, and the TexaSaver Administrative Trust Fund that are administered by the Employees Retirement System. The Retired School Employees Group Insurance Trust that is administered by the Teacher Retirement System is also included.

## **Economic Outlook and Major Initiatives**

During 2006, the Texas economy added jobs at almost twice the national rate and reached 10 million nonfarm jobs. Texas added 204,300 nonfarm jobs from November 2005 through November 2006, at a growth rate of 2.1 percent. This was the second fastest rate of increase since 2000 and outstripped the nation's job growth rate of 1.4 percent.

Texas' gross domestic product exceeded one trillion dollars for the first time in 2006. Actual economic growth was 8.7 percent, but when adjusted for inflation, gross state product growth during the year was 5.0 percent. This was the second largest inflation-adjusted increase since 1998 and the change was largely due to the strength of the state's energy industry. Also, because Texas is hampered less by a housing downturn than the national average, construction and real estate have contributed to the growth.

There were more migrants to Texas in 2006 than to any other state, with the Census Bureau estimating that 218,745 more people moved to Texas during the year than moved away. A healthy state economy was one reason, but the impact of Hurricane Katrina in Louisiana was another impe-

tus underlying a substantial part of the net migration. Texas had the greatest population increase of any state during the year and the fifth fastest percentage increase. The census estimated that the state's population grew by 579,275 from July 1, 2005, to July 1, 2006, nearly doubling the population increases of either Florida or California, which ranked second and third in population increase.

For the second straight year, Texas' goods-producing industries grew at a faster rate than the service-providing industries. The state's goods employment growth was actually more than twice that of services, boosted by healthy growth in the oil/gas and construction industries. Natural resources/mining and construction, growing at 6.2 and 7.4 percent respectively, were the state's two fastest growing industries from November 2005 to November 2006. For the third consecutive year, the state's manufacturing industry added jobs. Continuing productivity gains limited manufacturing job growth to a moderate rate of 0.8 percent, but this compares favorably with yet another year of manufacturing job losses nationally. With increased oil and gas drilling, in particular, the state's manufacturing industry was spurred on by substantial hiring in transportation equipment, fabricated metals, and machinery.

Overall, Texas ranked 16th among the states in its rate of employment growth from November 2005 to November 2006. Although the state's job growth during 2006 was lukewarm compared to recent decades, Texas still added more jobs than all but one state, being surpassed by Florida.

Texas exports during the first 10 months of 2006 totaled \$124.5 billion, up 16.9 percent from the first 10 months of 2005. During all of 2005, the total value of Texas' exports was \$128.8 billion, up 9.8 percent from its level in 2004, which was itself up 18.6 percent from a year earlier. Texas has widened its first-place lead among the states, and its exports now comprise more than 1/7<sup>th</sup> of total U.S. exports, according to the World Institute of Social and Economic Research (WISER). Texas has led all other states in export trade since 2002.

## **Unemployment Rate Improving**

For the fourth straight year, the unemployment rate in Texas improved, although it still remains higher than



the national average. Texas' total unemployment rate fell from 7.7 percent in 1992 to a monthly low of 3.9 percent in December 2000, after which terrorist attacks affected an already weakened economy and the nationwide high tech slump pushed the unemployment rate to a peak of 6.8 percent in May 2003. Since that time, unemployment has improved, albeit with occasional ups and downs. Overall, the Texas unemployment rate fell over the past year from 5.3 percent in November 2005 to 5.0 percent in November 2006.

Rates of unemployment along the Texas/Mexico border, which generally are much higher than in the rest of the state, have improved markedly, with the highest metropolitan rate in the state now being 7.1 percent in El Paso. On the low side, three metropolitan areas—Midland, Bryan, and Austin—had rates between 3.5 and 4.0 percent.

### **Leading Indicators See Continued Expansion**

The Comptroller's Index of Leading Economic Indicators expects moderate economic growth to continue in Texas. The index, a composite of 10 indicators, is designed to forecast the state's employment growth four to six months in advance. It predicts a relatively stable state economy in 2007, provided that out-of-range economic shocks do not occur.

After posting extraordinary gains in 2005, consumer confidence advanced another 13.3 percent in the West South Central States over the past year. Although the index reacts quickly to major political, economic, or business events, the December 2006 consumer confidence level is 28.3 percent above the survey's 1985 baseline. Since it is a major factor driving housing and other major purchases, consumer confidence is a key indicator to economic health.

After three years of improving rates of retail sales growth in Texas, retail sales activity continued unabated. Sales tax collections in Texas, an indicator of taxable retail sales activity, were particularly robust in 2006, with year-to-year growth in all months and double-digit year-to-year percentage increases in all but two months. After non-automobile taxable sales racked up an increase of 7.3 percent in 2005, sales tax collections tacked on another 12.6 percent during the first eleven months of 2006. Information from

vehicle sales tax receipts indicates that automobile sales dollars also climbed 10.3 percent.

Higher energy prices, although a drag on much of the economy, were a positive development for the state's oil and gas drilling industry in 2006. The number of operating oil and gas rigs, which had advanced 33 percent in 2003, 13 percent in 2004, and 23 percent in 2005, tacked on another 22 percent during the first eleven months of 2006. With an average of 743 drilling rigs in operation, 2006 was the state's most active oil and gas exploration period in 22 years.

The housing market in Texas was more subdued than in recent years, but was vigorously healthy compared to much of the nation, particularly the east and west coasts. Although housing prices have risen in Texas by 4.3 percent per year over the past five years, the state continues to have some of the most undervalued residential real estate in the country, relative to household income, as calculated by Global Insight, Inc. Consequently, housing prices have mostly remained firm, given comparatively lower asking prices and a relatively healthy demand to inventory ratio. The average price of a Texas house stood at \$182,200 in the fall of 2006, according to the Texas A&M Real Estate Center. Texas' housing permits during the first 10 months of 2006 were up 4.9 percent, and sales of existing homes during the first 10 months were up 8.2 percent.

Texas is set to reach its fifteenth year of increases in new business incorporations, based on data for the first 10 months of 2006. During 2006, the state had a monthly average of 9,189 new incorporations, compared to last year's average of 9,012. These incorporations do not necessarily indicate a vigorous economy, because the number reveals nothing about the economic viability of newly incorporated businesses. Still, the state's entrepreneurial spirit is reflected in the unusually large number of Texans taking on the challenges of starting a new business.

At the close of calendar 2006, six of the state's 10 leading economic indicators point toward an improved state economy in the upcoming months. Positive signs include an increase in new business incorporations, brisk retail sales growth, a rise in stock values, fewer initial claims for unemployment compensation, a moderately higher national index

of leading economic indicators, and continued strength in the consumer confidence index.

### **Outlook for 2007 and 2008**

The Comptroller's office forecasts that the state's gross state product growth in 2007 and 2008 will brake a bit from its real growth rate of the previous two years, but still advance by 3.7 percent in 2007 and 3.5 percent in 2008. Employment growth will continue at a pace of about 2.1 percent per year. Population growth in 2007 will likely be about one-half percentage point less than it was in 2006, because hurricane-related migration in late 2005 and early 2006 has reversed in light of return migration. Population growth is still expected to increase by 1.8 percent during 2007.

A gradual return to lower productivity rates in Texas and the nation is expected to restrain growth in Texas' gross domestic product. Other factors pressuring the economy downward will be a weaker housing and construction market than in recent years, high consumer debt, and the nation's global trade imbalance, which could put pressure on interest rates. On the other hand, several stimulative factors could boost the economy. The outlook for capital and investment expenditures is optimistic, and a weaker dollar, in conjunction with stronger economic growth in several overseas markets, will benefit exports.

With the state's strategic geographic location on the crossroads of the economically vibrant south and west, as well as its gateway position relative to Latin America, Texas' gross state product growth has outperformed U.S. gross domestic product growth in all but one year since 1991. The Comptroller's economic forecast model predicts that the increase in Texas' real gross state product will once again exceed forecasted U.S. growth in both 2007 and 2008, by nearly one percentage point per year.

### **School Finance Lawsuit and Property Tax Relief**

In November 2005, the Texas Supreme Court (Court)—finding that school districts had lost meaningful discretion in setting local tax rates—ruled that Texas' school finance system had become a constitutionally prohibited state property tax. The Court overturned a district court's rulings that

the school finance system also violated the constitutional mandate for an adequate, efficient, and suitable system of public education.

The Court set a deadline for legislative action of June 1, 2006, but gave little specific guidance about remedies, pointing to a number of general options, ranging from raising tax caps or increasing revenue, to structural reforms, such as school district consolidations or a complete restructuring of the school finance system.

In a 30-day special session ending in mid-May, the legislature passed a package of legislation to reform the state's primary business tax, increase the cigarette tax and other taxes, reduce school district property tax rates, and provide local school districts with additional funding and discretion in setting local property tax rates.

Under the new legislation, most school districts' maintenance and operations property tax rates were reduced for tax year 2006 to 88.67 percent of their 2005 rate, and then allowed to increase—by local school board decision—up to four cents. In tax year 2007, district's rates will be reduced to 66.67 percent of their 2005 rate, plus the optional four cents. Districts can set higher local tax rates with voter approval. The new cigarette tax took effect January 1, 2007. The reformed business tax takes effect January 1, 2008.

### **Hurricanes Katrina and Rita**

Last year's turbulent hurricane season greatly affected the entire Gulf Coast Region causing large-scale destruction and a massive displacement of people. Texas continues to deal with the impacts of both Hurricanes Katrina and Rita. Only Rita hit Texas directly, however Katrina's effects were felt through the several hundred thousand people fleeing from Louisiana to find shelter in Texas.

During the height of evacuations, nearly 500,000 people sought refuge in Texas, with the majority of evacuees (250,000-300,000) going to Houston and the remaining scattered throughout the state. As of August 2006, about 251,000 Katrina evacuees continue to reside in Texas with 120,000 living in the Houston area. Many of these residents depend on assistance programs.

At the peak of the disaster response, a total of 137,000 Hurricane Katrina evacuees went to 242 public shelters in

Texas, 144,135 evacuees registering for Federal Emergency Management Agency (FEMA) assistance listed a Texas address, and FEMA sheltered an estimated 195,000 evacuees in hotel rooms in Texas. More than 107,000 households in Texas received rental assistance from FEMA through the Individuals and Households Program; however, as of October 31, 2006, rent subsidies ended for evacuees in Texas.

According to the Texas Education Agency (TEA), Katrina evacuee student enrollment statewide was 21,500 as of September 2006, down from a high of 46,300. School officials are worrying how to pay for the returning evacuee children as federal assistance is limited to the 2005-2006 school year.

More than a year later, both Katrina and Rita continue to have an effect on Texas as 631,076 households in Texas have registered with FEMA for aid. FEMA has approved 100 percent reimbursement, up from 75 percent, for total eligible costs of Texas local governments' Rita debris removal and emergency services incurred through June 30, 2006. After that, reimbursement is 90 percent. Texas will receive \$428.6 million of the latest \$5.2 billion in federal housing block grants, up from the \$74.5 million of last year's \$11.5 billion.

The energy industry sector incurred the biggest losses as a result of these storms. It is estimated the energy industry (oil, gas, and electric) suffered \$17 billion in losses from Katrina and Rita and as of August 2006, 10 percent of Gulf oil and gas output continues to be shut in.

## **Deduction of Sales Taxes from Federal Taxes**

In 1986, Congress passed the Tax Reform Act (TRA86). The Act grew out of President Reagan's tax reform proposal, which called for the removal of all deductions for state and local taxes-whether based on income, property, or sales. The final version of the Act left the deductions for income and property taxes intact, but eliminated the deductibility of sales taxes.

In 2004, Texas taxpayers benefited from legislation signed by President Bush that brought back the deduction of state and local sales taxes from federal income tax on returns filed for 2004 and 2005. However, without an extension, the

opportunity to deduct sales taxes was scheduled to expire with the 2006 tax year.

On December 8, 2006, Congress adopted H.R. 6111, the Tax Relief and Health Care Act of 2006, and President Bush signed it on December 20. Among other provisions, this act reinstates the itemized deduction for state sales taxes retroactively to the beginning of 2006 with expiration at the end of the 2007 tax year. The extension allows residents of Texas and other states that have no personal income tax to deduct major taxes paid to state governments.

Taxpayers across the country may use the higher of state income taxes paid or sales taxes paid. According to [washingtonwatch.com](http://washingtonwatch.com), the tax relief provision will provide an average tax savings of \$99.33 per person nationwide.

## **Awards and Acknowledgments**

### **Certificate of Achievement**

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Texas for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2005. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Texas has received a Certificate of Achievement for the last 16 years (fiscal years ended August 1990 through 2005). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.



## Acknowledgments

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The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of my Financial Reporting Section and Fiscal Management Division; the chief financial officers, chief accountants, and their staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,

Susan Combs





# STATE OF TEXAS COMPREHENSIVE ANNUAL FINANCIAL REPORT

## State of Texas Elected State Officials

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### Executive

Rick Perry  
Governor

David Dewhurst  
Lieutenant Governor

Susan Combs  
State Comptroller

Greg Abbott  
Attorney General

Jerry Patterson  
Land Commissioner

Todd Staples  
Commissioner of Agriculture

Elizabeth Ames Jones  
Victor G. Carrillo  
Michael L. Williams  
Railroad Commissioners

### Legislative

Lieutenant Governor, David Dewhurst, presides over the Senate

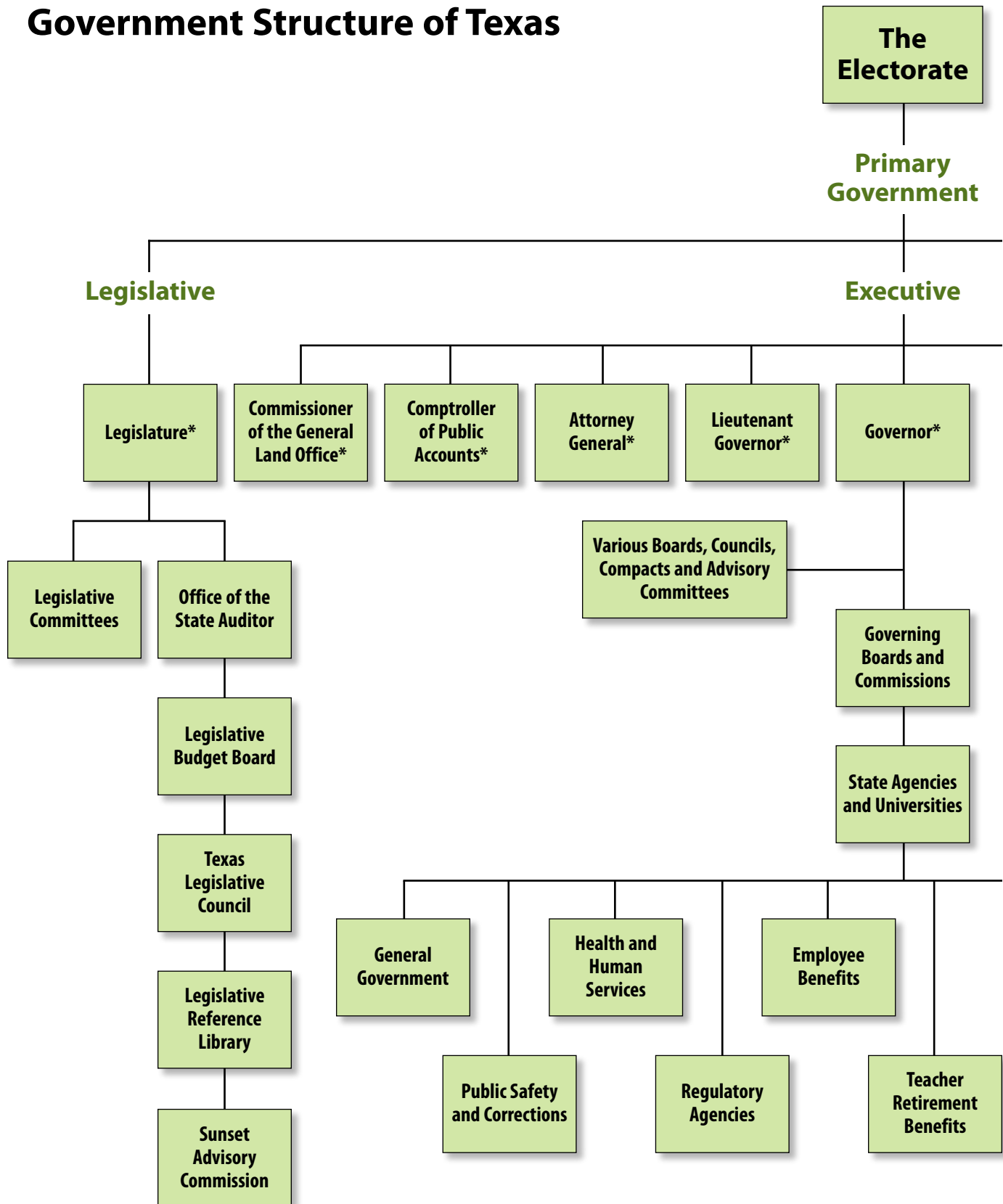
Tom Craddick  
Speaker of the House of Representatives

### Judicial

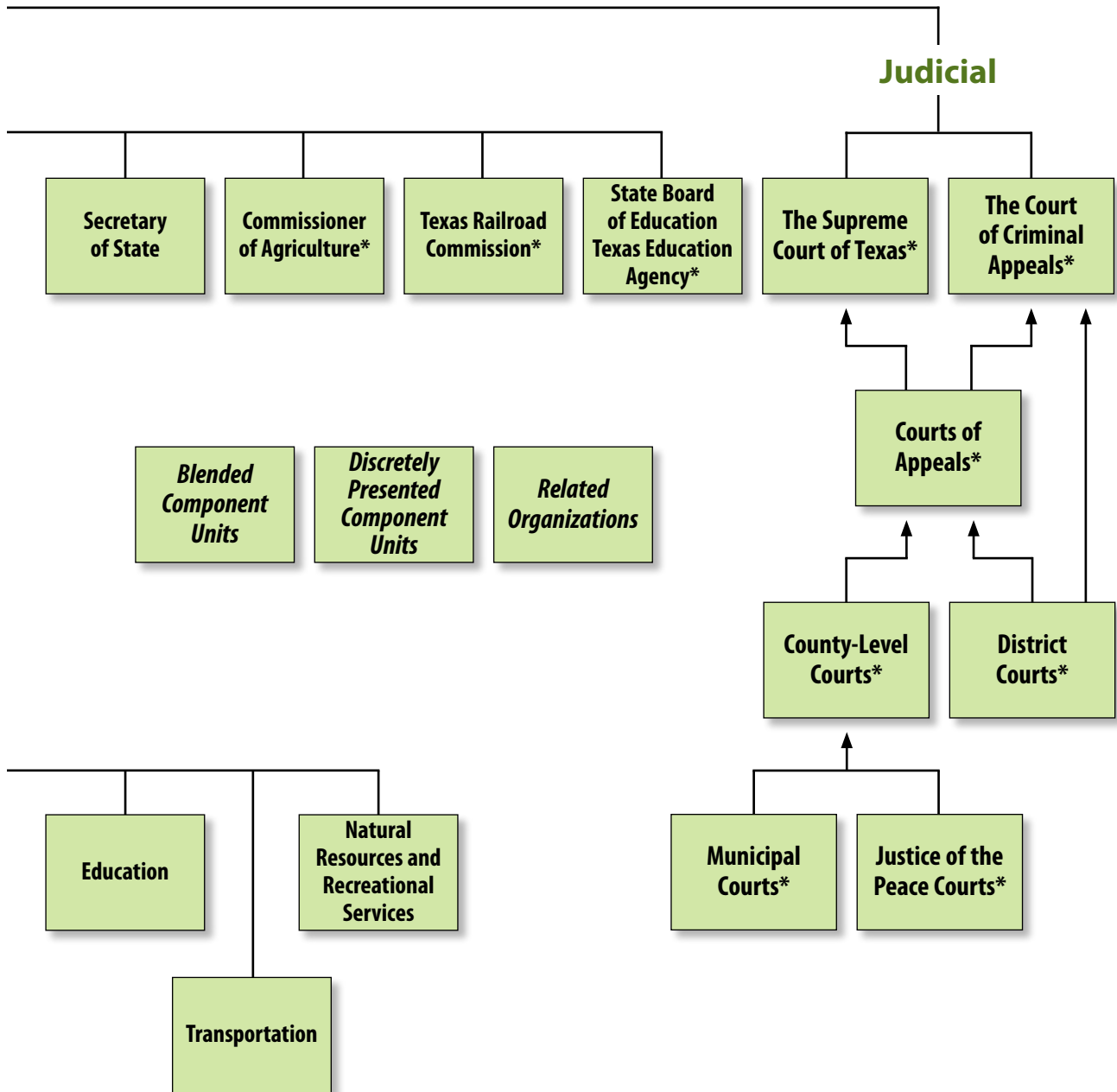
Wallace B. Jefferson  
Chief Justice of the Supreme Court

Sharon Keller  
Presiding Judge, Court of Criminal Appeals

# Government Structure of Texas



\* Elected Offices



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2005

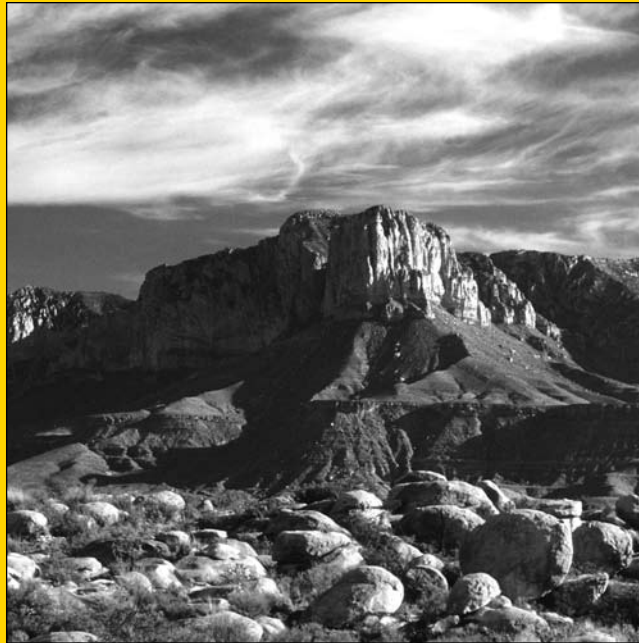
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

STATE *of* TEXAS



FINANCIAL  
SECTION



EL CAPITAN  
GUADALUPE MOUNTAINS  
NATIONAL PARK



## INDEPENDENT AUDITOR'S REPORT

The Honorable Rick Perry, Governor  
The Honorable Susan Combs, Comptroller of Public Accounts  
The Honorable David Dewhurst, Lieutenant Governor  
The Honorable Tom Craddick, Speaker of the House of Representatives  
and  
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2006, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas System, which constitutes 73 percent of the assets of Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 52 percent of the assets of the business-type activities.
- The Department of Transportation Turnpike Authority, a major enterprise fund, which constitutes 5 percent of the assets of the business-type activities.
- The Employees Retirement System of Texas and the Texas Local Governmental Investment Pool (TexPool), which constitute 15 and 7 percent, respectively, of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Texas System, the Department of Transportation Turnpike Authority, and TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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SAO No. 07-314


In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule, and the modified approach to reporting infrastructure assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA  
State Auditor

February 20, 2007

STATE *of* TEXAS



MANAGEMENT'S  
DISCUSSION  
AND ANALYSIS



THE LAGUNA MADRE  
GULF OF MEXICO



## Management's Discussion and Analysis

The following is a discussion and analysis of the State of Texas' financial performance, providing an overview of the state's financial position and activities as of and for the fiscal year ended August 31, 2006. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2006 report.

### Highlights Government-wide

#### Net Assets

The assets of the State of Texas exceeded its liabilities by \$127.9 billion as of August 31, 2006, an increase of \$12.3 billion, or 10.7 percent, from fiscal year 2005.

#### Fund Level

##### Governmental Funds

As of August 31, 2006, the state's governmental funds reported a combined ending fund balance of \$34.8 billion, an increase of \$6.5 billion, or 22.9 percent, from fiscal year 2005. The state reported a positive unre-served fund balance of \$7.2 billion in fiscal year 2006.

##### Proprietary Funds

The proprietary funds reported net assets of \$37.7 billion as of August 31, 2006, an increase of \$3.8 billion, or 11.2 percent, from fiscal year 2005.

##### Long-Term Debt

The state's total bonds outstanding increased by \$1.6 billion, or 8.4 percent during fiscal year 2006. This amount represents the net difference between net issuances, payments, and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling \$3.8 billion. More detailed information regarding the government-wide, fund level, and long-term debt activities can be found in the Debt

Administration section of this Management's Discussion and Analysis (MD&A).

### Overview of the Financial Statements

The reporting focus of this report is on the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

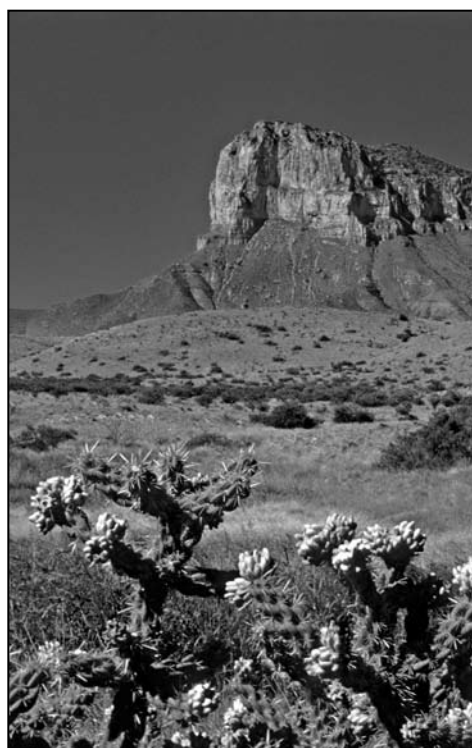
The Financial Section of this annual report presents the state's financial activities and position in four parts—(1) MD&A (this part), (2) the Basic Financial Statements, (3) Required Supplementary Information Other Than MD&A, and (4) Other Supplementary Information presenting combining statements. The report also includes statistical and economic data.

The Basic Financial Statements include Government-wide Financial Statements, Fund Financial Statements, and Notes to Financial Statements that provide more detailed information to supplement the Basic Financial Statements.

### Reporting on the State as a Whole

The Government-wide Financial Statements are designed to present an overall picture of the financial position of the state. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The Statement of Net Assets combines and consolidates the government's current financial resources with capital



assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental, business-type, and component units); these costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The Statement of Net Assets and the Statement of Activities divide the state's activities into three types.

### **Governmental Activities**

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services. Taxes, fees, and federal grants finance most of these activities.

### **Business-Type Activities**

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

### **Component Units**

Component units are legally separate organizations for which the state is either financially accountable, or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the Government-wide Financial Statements. The state includes 15 separate legal entities in the notes to this report.

## **Reporting on the State's Most Significant Funds**

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Fund Financial Statements present financial information in a form more familiar to experienced users of governmental financial statements. However, these statements now focus on the most significant funds. Use these statements to find more detailed information about the state's most significant activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

### **Governmental Funds**

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A majority of the state's activities is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help determine the level of resources available for the state's programs. The reconciliation following the Fund Financial Statements explains the differences between the government's activities, reported in the Government-wide Statement of Net Assets and the Government-wide Statement of Activities, and the governmental funds. The General Fund, State Highway Fund, and Permanent School Fund are reported as major governmental funds.

### **Proprietary Funds**

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When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus, and the accrual basis of accounting. These are the same business-type activities

reported in the Government-wide Financial Statements, but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in Internal Service Funds, the other component of proprietary funds. The state's Employees Life, Accident, and Health Insurance Benefits Fund is reported as the only internal service fund.

Colleges and Universities, Texas Water Development Board Funds, and the Texas Department of Transportation Turnpike Authority are shown as major proprietary funds.

## Reporting on the State's Fiduciary Responsibilities

The state is the trustee, or fiduciary, for seven defined benefit plans, and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities are reported separately from other financial activities, because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

## Financial Analysis of the State as a Whole

### Net Assets

Total assets of the state on August 31, 2006, were \$181.6 billion, an increase of \$21.7 billion. Total liabilities as of August 31, 2006, were \$53.7 billion, an increase of \$9.3 billion or 21.0 percent. Net assets were affected by a number of factors. Cash and cash equivalents grew \$8.8 billion from fiscal year 2005, and investments increased \$6.2 billion. Net capital assets increased \$4.7 billion, much from additions to the state's highway system. The increase in total liabilities is partially due to the year-end issuance of \$4.6 billion in Tax and Revenue Anticipation Notes. The Net Asset balance was \$127.9 billion in fiscal year 2006, an increase of \$12.3 billion, or 10.7 percent. Of the state's net assets, \$62.3 billion were invested in capital assets, net of related debt, while \$48.8 billion were restricted by statute or other legal requirements, and were not available to finance day-to-day operations of the state. Unrestricted net assets were \$16.8 billion. The state's bonded indebtedness was \$21.0 billion, which included new issuances of \$3.8 billion in state bonds to finance new construction, housing, water conservation, and other projects. Approximately \$2.2 billion in bonded debt was retired or refunded.

<b>Statement of Net Assets</b>						
<b>August 31, 2006 and 2005 (Amounts in Thousands)</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>						
Assets Other Than Capital Assets	\$ 53,920,494	\$41,436,328	\$52,234,597	\$47,764,647	\$106,155,091	\$ 89,200,975
Capital Assets	60,318,012	57,227,907	15,113,941	13,494,672	75,431,953	70,722,579
Total Assets	114,238,506	98,664,235	67,348,538	61,259,319	181,587,044	159,923,554
<b>LIABILITIES</b>						
Current Liabilities	17,951,094	12,065,292	9,875,245	8,294,032	27,826,339	20,359,324
Non-Current Liabilities	6,125,253	4,921,027	19,734,021	19,055,574	25,859,274	23,976,601
Total Liabilities	24,076,347	16,986,319	29,609,266	27,349,606	53,685,613	44,335,925
<b>NET ASSETS</b>						
Invested in Capital Assets,						
Net of Related Debt	55,473,237	53,814,542	6,871,404	6,252,639	62,344,641	60,067,181
Restricted	25,992,910	24,110,259	22,812,284	20,580,503	48,805,194	44,690,762
Unrestricted	8,696,012	3,753,115	8,055,584	7,076,571	16,751,596	10,829,686
Total Net Assets	\$ 90,162,159	\$81,677,916	\$37,739,272	\$33,909,713	\$127,901,431	\$115,587,629

## Changes in Net Assets

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The state earned program revenues of \$59.1 billion and general revenues of \$36.6 billion, for total revenues of \$95.7 billion, an increase of \$6.5 billion, or 7.3 percent. The major components of this increase are taxes, which were up by \$4.1 billion, and charges for services, which increased \$1.2 billion. Sales and use tax and oil and natural gas production tax each had gains greater than one billion dollars, reporting increases of \$2.2 billion and \$1.0 billion respectively over the prior year.

The expenses of the state were \$83.6 billion, an increase of \$5.9 billion, or 7.6 percent. The expense fluctuations in Governmental Activities is largely attributable to the health and human service function and education function. In the business-type activities, colleges and universities expenses were the largest increase. Other proprietary entities showed relatively stable activities between the prior and current years.

As a result of revenues exceeding expenses, the state's total net assets increased by \$12.3 billion, an increase of 10.7 percent. Revenues and expenses of the state's governmental and business-type activities are detailed on the following page.



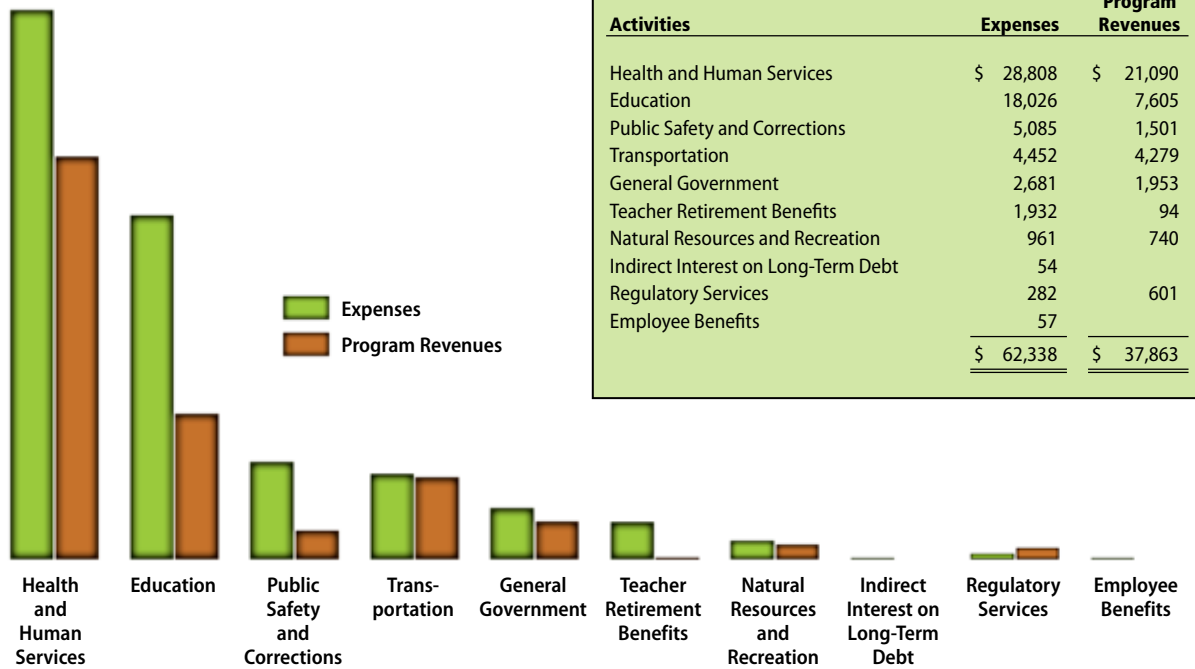
## Changes in Net Assets

For the Fiscal Years Ended August 31, 2006 and 2005 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 6,080,506	\$ 5,578,419	\$ 13,934,320	\$ 13,240,994	\$ 20,014,826	\$ 18,819,413
Operating Grants and Contributions	28,979,226	26,667,982	7,200,099	8,086,139	36,179,325	34,754,121
Capital Grants and Contributions	2,803,006	3,253,051	155,541	211,726	2,958,547	3,464,777
Total Program Revenues	<u>37,862,738</u>	<u>35,499,452</u>	<u>21,289,960</u>	<u>21,538,859</u>	<u>59,152,698</u>	<u>57,038,311</u>
General Revenues:						
Taxes	33,993,845	29,932,151			33,993,845	29,932,151
Unrestricted Investment Earnings	760,207	327,516	55,150	68,423	815,357	395,939
Settlement of Claims	583,787	885,975	94	20	583,881	885,995
Gain on Sale of Capital Assets	2,762	8,461	276	6,431	3,038	14,892
Other General Revenues	1,071,679	822,652	91,017	126,957	1,162,696	949,609
Total General Revenues	<u>36,412,280</u>	<u>31,976,755</u>	<u>146,537</u>	<u>201,831</u>	<u>36,558,817</u>	<u>32,178,586</u>
Total Revenues	<u>74,275,018</u>	<u>67,476,207</u>	<u>21,436,497</u>	<u>21,740,690</u>	<u>95,711,515</u>	<u>89,216,897</u>
<b>EXPENSES</b>						
General Government	2,681,117	2,206,793	162,499	142,142	2,843,616	2,348,935
Education	18,025,550	16,293,851	15,982,582	14,716,405	34,008,132	31,010,256
Employee Benefits	56,718	50,544			56,718	50,544
Teacher Retirement Benefits	1,932,325	2,083,530	813,133	761,240	2,745,458	2,844,770
Health and Human Services	28,808,315	27,302,426	1,253,431	1,540,459	30,061,746	28,842,885
Public Safety and Corrections	5,084,923	4,086,450	73,775	71,308	5,158,698	4,157,758
Transportation	4,452,154	3,766,301	16,339	346	4,468,493	3,766,647
Natural Resources and Recreation	961,178	1,070,481	284,241	264,707	1,245,419	1,335,188
Regulatory Services	282,067	349,420			282,067	349,420
Indirect Interest on Long-Term Debt	54,121	417,854			54,121	417,854
Lottery			2,687,084	2,594,241	2,687,084	2,594,241
Total Expenses	<u>62,338,468</u>	<u>57,627,650</u>	<u>21,273,084</u>	<u>20,090,848</u>	<u>83,611,552</u>	<u>77,718,498</u>
Excess Before Contributions, Special Items, and Transfers	<u>11,936,550</u>	<u>9,848,557</u>	<u>163,413</u>	<u>1,649,842</u>	<u>12,099,963</u>	<u>11,498,399</u>
Capital Contributions	1,449	107	3,874	133	5,323	240
Contributions to Permanent and Term Endowments			123,939	145,919	123,939	145,919
Special Items			(38,898)		(38,898)	
Transfers	(3,513,639)	(2,966,197)	3,513,639	2,966,197		
Change in Net Assets	<u>8,424,360</u>	<u>6,882,467</u>	<u>3,765,967</u>	<u>4,762,091</u>	<u>12,190,327</u>	<u>11,644,558</u>
Net Assets, Beginning Balance	81,677,916	74,160,780	33,909,713	29,896,656	115,587,629	104,057,436
Restatements	59,883	634,669	63,592	(749,034)	123,475	(114,365)
Net Assets, Beginning Balance, as Restated	<u>81,737,799</u>	<u>74,795,449</u>	<u>33,973,305</u>	<u>29,147,622</u>	<u>115,711,104</u>	<u>103,943,071</u>
Net Assets, Ending Balance	<u>\$90,162,159</u>	<u>\$81,677,916</u>	<u>\$37,739,272</u>	<u>\$33,909,713</u>	<u>\$127,901,431</u>	<u>\$115,587,629</u>

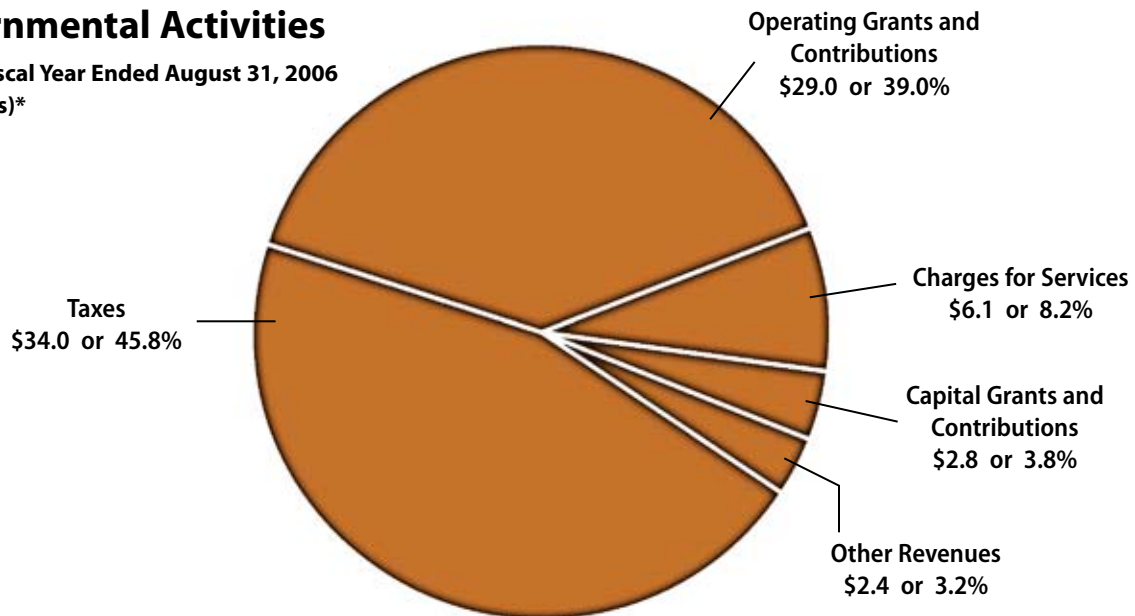
## Expenses and Program Revenues Governmental Activities

For the Fiscal Year Ended August 31, 2006 (In Millions)



## Revenue by Source Governmental Activities

For the Fiscal Year Ended August 31, 2006  
(In Billions)\*

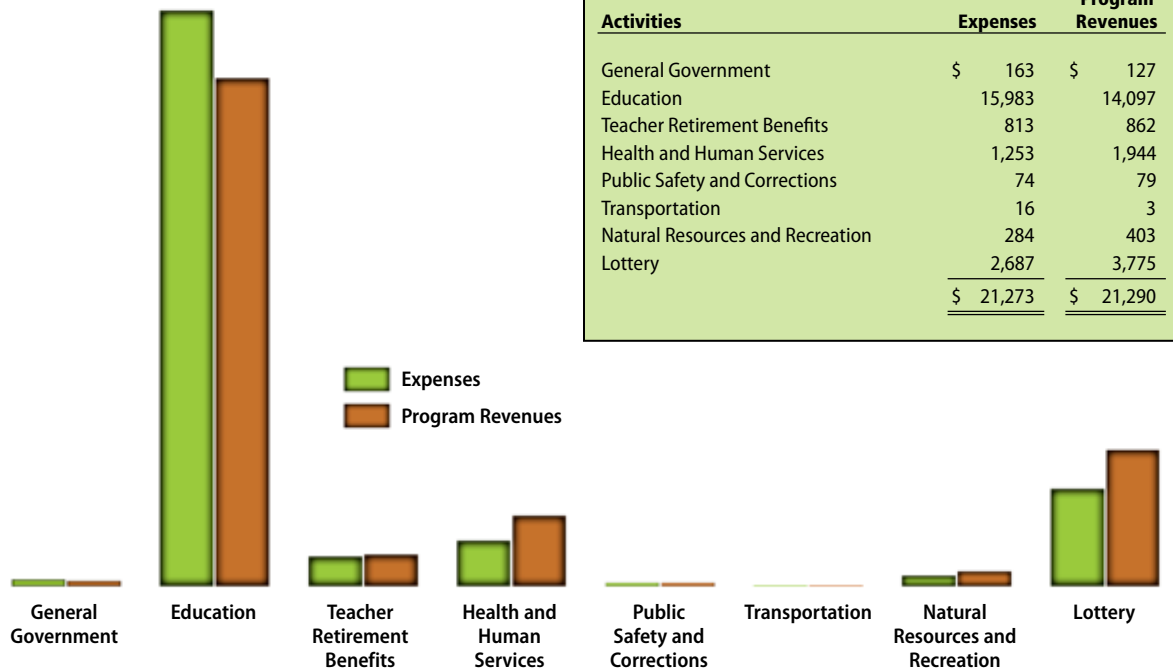


**Total = \$74.3 Billion**

\* Totals may not add due to rounding

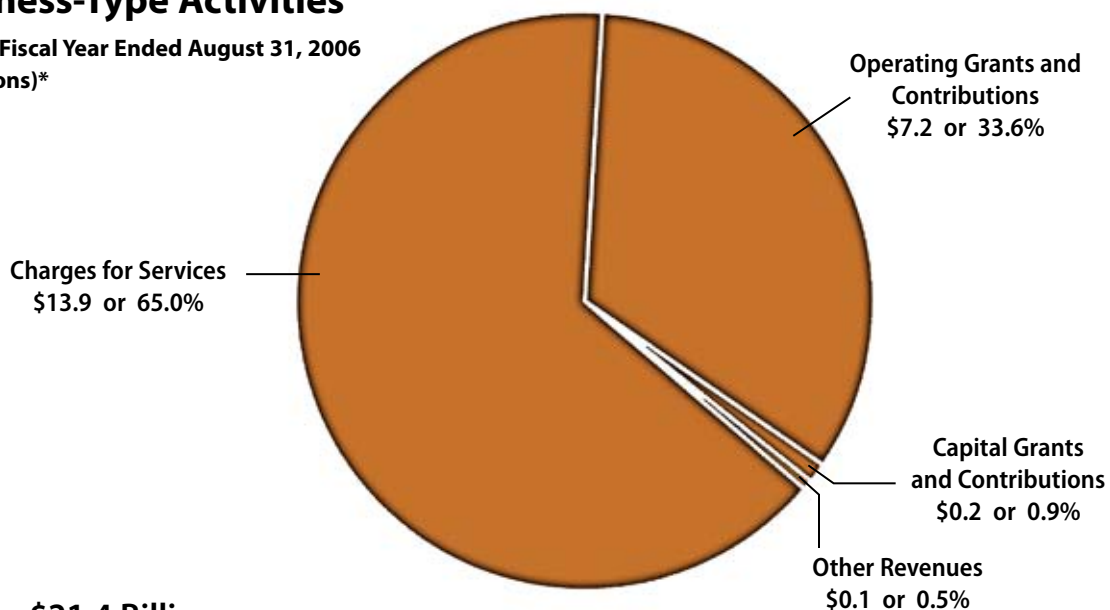
## Expenses and Program Revenues Business-Type Activities

For the Fiscal Year Ended August 31, 2006 (In Millions)



## Revenue by Source Business-Type Activities

For the Fiscal Year Ended August 31, 2006  
(In Billions)\*



**Total = \$21.4 Billion**

\* Totals may not add due to rounding

## Governmental Activities

The governmental activities program revenue is \$37.9 billion, including charges for services of \$6.1 billion, operating grants and contributions of \$29.0 billion, and \$2.8 billion reported in capital grants and contributions. The largest increase, \$2.3 billion, was for operating grants and contributions, which includes federal and state grants, as well as investment income restricted to specific programs. In addition, charges for services were up by \$502.1 million from 2005. Governmental activities expenses were \$62.3 billion, resulting in a net cost for governmental services of \$24.5 billion, an increase of \$2.4 billion, or 10.9 percent from the prior year.

### Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2006  
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 2,681,117	\$ 728,422
Education	18,025,550	10,420,093
Employee Benefits	56,718	56,598
Teacher Retirement Benefits	1,932,325	1,838,631
Health and Human Services	28,808,315	7,717,841
Public Safety and Corrections	5,084,923	3,584,171
Transportation	4,452,154	172,954
Natural Resources and Recreation	961,178	221,525
Regulatory Services	282,067	(318,626)
Indirect Interest on Long-Term Debt	54,121	54,121
Total	<u>\$ 62,338,468</u>	<u>\$ 24,475,730</u>

### Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2006  
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 162,499	\$ 35,921
Education	15,982,582	1,885,185
Teacher Retirement Benefits	813,133	(48,556)
Health and Human Services	1,253,431	(690,763)
Public Safety and Corrections	73,775	(5,257)
Transportation	16,339	13,514
Natural Resources and Recreation	284,241	(118,474)
Lottery	2,687,084	(1,088,446)
Total	<u>\$ 21,273,084</u>	<u>\$ (16,876)</u>

All functions of governmental activities in the Statement of Activities are in deficit except for the regulatory services function that reports a surplus. The regulatory services function consists mostly of professional licensing agencies, which are required to set professional license fees at a level sufficient to cover costs of operations.

## Business-Type Activities

Business-type activities generated program revenue of \$21.3 billion, including charges for services of \$13.9 billion, operating grants and contributions of \$7.2 billion, and \$155.5 million reported in capital grants and contributions. The education function showed a \$3.0 billion increase in program revenue, a 9.7 percent increase. The total expenses for business-type activities were \$21.3 billion, resulting in a net gain from the government's business-type activities of \$16.9 million, a decrease of \$1.4 billion, below the prior year. The decrease occurred primarily as interest and investment incomes declined, particularly for colleges and universities.

## Financial Analysis of the State's Funds

### Governmental Funds

As of August 31, 2006, governmental funds reported fund balances of \$34.8 billion. Of this total amount, \$7.2 billion constitutes unreserved fund balances, and \$27.6 billion reserved. The general fund reported a positive \$5.8 billion unreserved balance.

### General Fund

The fund balance for the General Fund as of August 31, 2006 was \$7.3 billion, an improvement of \$5.3 billion from the \$2.0 billion balance in fiscal year 2005. Tax collections, which provide the largest source of general revenue for the state, were up 13.5 percent. The majority of the increase is attributable to sales and use taxes paid by businesses and consumers for goods and services purchased within or brought into the state. Large increases were also made in oil and gas production taxes. Federal revenue increased 12.5

percent. Health and human services produced the largest expenditure gains over the prior year, a \$1.7 billion increase, but education was close behind with a \$1.6 billion increase.

### **State Highway Fund**

The fund balance for the State Highway Fund as of August 31, 2006, was \$255.7 million, a decrease of \$221.7 million from \$477.4 million as of August 31, 2005. New financing tools, made available by the Texas Legislature, allowed the State Highway Fund balance to be reduced with these funds being expended on maintenance and capitalized contractor payments. As a result, maintenance expenditures and capitalized contractor payments increased \$755.7 million. Several projects were also accelerated with additional transfers and bond issuances.

### **Permanent School Fund**

The fund balance for the Permanent School Fund (Fund) as of August 31, 2006, totaled \$23.9 billion, an increase of \$1.8 billion since August 31, 2005. An increase in market values contributed to the increase in investments from \$21.6 in fiscal year 2005 to \$23.2 billion in fiscal year 2006, an increase of \$1.6 billion. The Fund recognized more than \$2.8 billion in interest, investment and land income a decrease of \$370.8 million below fiscal year 2005, primarily due to declining rates of return. The price increases in oil and gas provided land income of \$438.5 million in fiscal year 2006.

### **Proprietary Funds**

Proprietary Funds reported net assets of \$37.7 billion as of August 31, 2006, an increase of \$3.8 billion from fiscal year 2005. Colleges and Universities, Texas Water Development Board Funds, and the Texas Department of Transportation Turnpike Authority are discussed separately. In addition, the Texas Workforce Commission Unemployment Trust Fund Accounts realized a net asset increase of \$857.8 million. This is primarily due to lower benefits paid as positive economic conditions resulted in a continued lower unemployment rate.

The Texas Prepaid Higher Education Tuition Board, reported a \$110.3 million deficit for fiscal year 2006, due to a deficiency of contributions and investment earnings

relative to increasing tuition costs. Deregulation of tuition for Texas public institutions of higher education in 2003 and variability in investment returns raises concerns that the current deficiency may increase. Constant evaluation of these factors is required.

### **Colleges and Universities**

Colleges and Universities net assets as of August 31, 2006, totaled \$32.4 billion, an increase of \$2.6 billion from August 31, 2005. The largest changes were increases in investments of \$4.2 billion, and in net capital assets of \$1 billion, and increases in bonded debt of \$793.8 million. An overall operating and nonoperating loss for universities of \$2.0 billion was offset by almost \$4.0 billion from legislative appropriations.

### **Texas Water Development Board Funds**

The Texas Water Development Board Funds net assets totaled \$1.8 billion as of August 31, 2006, an increase of \$111.7 million, from \$1.7 billion as of August 31, 2005. During fiscal year 2006, federal revenues of \$72.6 million and investment income of \$180 million accounted for virtually all of the additions to the funds. Federal revenue increased \$14.7 million from fiscal year 2005 as efforts were made to quicken final accounting of federally funded Clean Water programs and expedite federal reimbursement. Expenditures related to debt issuance declined as no additional Clean Water bonds were issued during the year. Funds are primarily used to provide financial assistance to political subdivisions for water development, water quality enhancement, and flood control projects.

### **Texas Department of Transportation Turnpike Authority**

Net assets for the Texas Department of Transportation Turnpike Authority totaled \$761.7 million as of August 31, 2006, an increase of \$268.9 million from August 31, 2005. The largest portion of the Turnpike Authority's total assets (69 percent) consists of right of way, construction in progress, a customer service center, and bridges. Investments that were made from bond proceeds and contributions from local entities made up 29 percent. These investments and

contributions will be used to finance the turnpike system. The Turnpike Authority recognized \$2.8 million in capital contributions from local governments as of August 31, 2006. An additional \$289.6 million in project expenditures was funded from the Texas Department of Transportation's Special Revenue Fund.

### **Fiduciary Funds**

Fiduciary Funds report \$139 billion in net assets as of August 31, 2006, an increase of \$8.9 billion from \$130.1 billion in fiscal year 2005.

### **Pension and Other Employee Benefit Trust Funds**

Total net assets for Pension and Other Employee Benefit Trust Funds were \$123.5 billion, an increase of \$7.8 billion from the \$115.7 billion in fiscal year 2005. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans improved during fiscal year 2006 primarily due to an increase in net investment income. The return for investments for the state's two largest pension systems, the Teacher Retirement System and the State Employees Retirement System, was 9.7 percent and 8.8 percent respectively. Both the Teacher Retirement and State Employees Retirement Systems had favorable investment returns during the fiscal year. In addition, the state contribution rate was raised from 6.0 percent to 6.45 percent for the State Employees Retirement System.

### **External Investment Trust Funds**

The External Investment Trust Funds reported total net assets of \$12.6 billion in fiscal year 2006, an increase of \$924.9 million from the \$11.7 billion in fiscal year 2005. The increase is primarily attributable to an increase in investment contributions by participants in the Texas Government Investment Pool (TexPool) Trust Fund.

### **Private-Purpose Trust Funds**

Total net assets for Private-Purpose Trust Funds were \$2.9 billion in fiscal year 2006, an increase of \$176.6 million from fiscal year 2005. The largest contribution to this increase was attributable to the Tobacco Settlement Permanent Trust

(Political Subdivisions) that reported investment income of \$207.7 million. The Texas Tomorrow Fund made the second largest addition to net assets, a \$43.8 million increase.

## **Budgetary Highlights**

### **Variances for the General Fund**

The differences from original and final revenue budgets are due to an overall improved economic picture from the original estimate. The amount of tax revenue budgeted in the final column of \$32.3 billion was higher than the original estimate of \$29.1 billion. Projected increases can be attributed to double-digit increases in retail sales activity and to positive development in the state's oil and gas industry. Actual results produced an additional \$1.2 billion above the final budget number.

Final budget numbers were also increased above original budget for federal revenues by \$1.1 billion. Not only were increases anticipated for Health and Human Services, but also for assistance with the conditions created by Hurricanes Katrina and Rita.

Final budgeted expenditures were adjusted downward slightly, less than one percent for total expenditures. Actual expenditures for General Government were \$793 million less than budgeted, largely due to unexpended vetoed expenditures and unspent economic development funds carried forward into the 2007 year. Actual Health and Human Services expenditures were less than final budget figures by \$703 million as related enrollment numbers were less than projected.

## **Capital Assets and Debt Administration**

### **Capital Assets**

As of August 31, 2006, the state had \$75.4 billion in net capital assets, of which \$46.2 billion was infrastructure. This total represents an increase of \$4.7 billion in net capital assets, or 6.6 percent, from fiscal year 2005. The state's capital assets include land and land improvements, infrastructure, construction in progress, buildings and building improvements, facilities and other improvements, furniture

## Capital Assets – Net of Depreciation

August 31, 2006 and 2005 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land and Land Improvements	\$ 6,799,132	\$ 6,303,668	\$ 1,145,692	\$ 1,036,932	\$ 7,944,824	\$ 7,340,600
Infrastructure	45,927,273	44,150,636	296,607	261,487	46,223,880	44,412,123
Construction in Progress	4,020,789	3,195,073	3,419,532	3,116,699	7,440,321	6,311,772
Buildings and Building Improvements	2,629,379	2,657,240	7,745,073	6,737,779	10,374,452	9,395,019
Facilities and Other Improvements	83,551	82,986	521,876	464,352	605,427	547,338
Furniture and Equipment	263,590	258,415	1,173,396	1,100,189	1,436,986	1,358,604
Vehicles, Boats, and Aircraft	366,697	349,751	50,764	49,089	417,461	398,840
Other Capital Assets	227,601	230,138	761,001	728,145	988,602	958,283
Total Capital Assets	<u>\$60,318,012</u>	<u>\$57,227,907</u>	<u>\$15,113,941</u>	<u>\$13,494,672</u>	<u>\$75,431,953</u>	<u>\$70,722,579</u>

and equipment, vehicles, boats, and aircraft, and other capital assets. Details of capital assets are shown in Note 2.

### Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the Government-wide Statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB Statement No. 34. The Texas Department of Transportation has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent and its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent. The condition assessment results for fiscal year 2006 reflect condition levels of 83.4 percent (82.1 percent in fiscal year 2005) for the Interstate system and 78.0 percent (77.9 percent in fiscal year 2005) for the Non-Interstate system.

In fiscal year 2006, the estimated maintenance expenditures for interstate highways were \$469.8 million, compared to \$434.0 million actual maintenance expenditures. The estimated versus actual maintenance expenditures for non-interstate highways were \$1.6 billion and \$1.8 billion, respectively.

Additional information on the state's road and highway infrastructure is presented in the Financial Section's Required Supplementary Information other than MD&A.

### Debt Administration

The State of Texas issues both General Obligation Bonds and Revenue Bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's General Obligation Bond issues are rated Aa1 by Moody's Investors Service and AA by Standard & Poor's Corporation, as of August, 2006. During fiscal year 2006, Texas' state agencies and universities issued \$3.8 billion in state bonds to finance new construction, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$1.2 billion of state bonds issued in fiscal year 2006. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$2.7 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$345.8 million in General Obligation Bonds and \$858.9 million in revenue bonds. Also, \$378.6 million in General Obligation Bonds and \$621.2 million in Revenue Bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements, and refundings as of August 31, 2006, was \$7.2 billion. This represents an increase of \$431.0



## Outstanding Bonded Debt

August 31, 2006 and 2005 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds Payable	\$ 4,478,891	\$ 3,972,020	\$ 2,738,685	\$ 2,814,521	\$ 7,217,576	\$ 6,786,541
Revenue Bonds Payable	1,152,483	632,162	12,378,384	11,748,802	13,530,867	12,380,964
Total Bonds Payable	<u>\$ 5,631,374</u>	<u>\$ 4,604,182</u>	<u>\$15,117,069</u>	<u>\$14,563,323</u>	<u>\$20,748,443</u>	<u>\$19,167,505</u>

million, or 6.4 percent, from fiscal year 2005. An additional \$4.3 billion of General Obligation Bonds have been authorized but have not been issued. Total revenue bonds outstanding were \$13.5 billion, which is an increase of \$1.1 billion, or 9.3 percent, from fiscal year 2005. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bonds.

## Cash Management

Funds deposited in the State Treasury are pooled for investment purposes. The Treasury is authorized to invest in NOW accounts, time deposits, obligations of the United States, obligations of various federal credit organizations, repurchase agreements, reverse repurchase agreements, bankers' acceptances, commercial paper, and mutual funds.

During fiscal year 2006, the average investment portfolio consisted of the following.

## Average Investment Portfolio\*

For the Fiscal Year Ended August 31, 2006

Investment Type	Percent of Total	Average Amount Invested (Amounts in Millions)	Average Interest Rate
NOW Accounts	0.2 %	24	1.19 %
Time Deposits	0.1	15	3.27
BidTX	3.6	580	4.29
Repurchase Agreements	40.2	6,481	3.27
U.S. Treasury and Agency Securities	31.6	5,085	6.06
U.S. Treasury (Lottery)	4.0	641	**
Commercial Paper	19.4	3,128	4.65
Political Subdivisions	0.0	0	5.77
Mutual Funds	2.4	393	4.45
Subtotal	101.5	16,347	
Reverse Repurchase Agreements	(1.5)	(237)	4.41
Total	<u>100.0 %</u>	<u>16,110</u>	4.78

\* The above numbers include all funds included in the State Treasury.

\*\* The yield for the Lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

## Economic Condition and Outlook

In 2006, Texas completed its third consecutive year of employment growth, exceeding a total of ten million nonfarm jobs for the first time. For the one year period through November, Texas' average annual nonfarm employment grew by 2.1 percent (up 204,300 jobs) while the nation added 1,816,000 nonfarm jobs, over the same period. Texas' job change, though slightly less than in 2005, was the second fastest increase since 2000 and above the nation's job growth rate of 1.4 percent. The health of the economy was reflected in continued improvement to the unemployment rate, which fell from 5.3 percent in November, 2005 to 4.7 percent in November, 2006. After the unemployment rate reached a peak of 6.8 in April, the rate has continued to improve, albeit with periodic fluctuations, since that date. The nation's average unemployment rate also improved

in 2006, falling from an average of 5.0 percent to 4.5 percent, with a narrowing gap between the Texas and U.S. rates. Texas' real gross state product advanced by an estimated 5.0 percent in 2006, when adjusted for inflation, while personal income increased by an estimated 7.4 percent. The personal income growth rate, expressed in nominal dollars, substantially exceeded the 3.6 percent inflation rate for the year. Real per capita personal income in the state rose 1.3 percent during the year.

The state revenue outlook has improved. The fiscal 2006 ending balance in general revenue-related funds was \$7.1 billion. The 2008-2009 Biennial Revenue Estimate, released in January 2007, indicates revenue available for general purpose spending of \$82.5 billion for

the biennium. The state's largest source of tax revenue is the sales tax. Sales tax collections continued to grow for the fourth straight year, up a solid 12.1 percent for calendar year 2006. The Comptroller forecasts sales tax growth of 7.0 percent in fiscal year 2007. The Texas economy is expected to be relatively healthy, with real gross state product growth of an estimated 4.3 percent in fiscal 2007 and 3.4 percent in fiscal 2008.

## **Contacting the State's Financial Management**

This financial report is designed to provide the state's citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting Section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.



STATE *of* TEXAS



BASIC FINANCIAL  
STATEMENTS

**State of Texas**  
**Statement of Net Assets**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Component Units</b>
			<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 16,029,552	\$ 3,426,230	\$ 19,455,782
Short Term Investments	367,299	916,001	1,283,300
Securities Lending Collateral	4,225,607	2,504,032	6,729,639
Receivables:			
Taxes (Note 24)	2,382,337		2,382,337
Federal	2,432,214	305,060	2,737,274
Other Intergovernmental	432,763	43,653	476,416
Accounts	641,529	630,156	1,271,685
Interest and Dividends	162,326	178,213	340,539
Gifts		114,393	114,393
Investment Trades	1,632	608,601	610,233
Other	64,113	836,799	900,912
From Fiduciary Funds	70,806		70,806
Due From Primary Government (Note 12)			
Due From Component Units (Note 12)	26		26
Inventories	245,396	125,175	370,571
Prepaid Items	2,167	73,786	75,953
Loans and Contracts	51,233	284,998	336,231
Other Current Assets	32	181,040	181,072
Restricted:			
Cash and Cash Equivalents	257,549	3,173,732	3,431,281
Short Term Investments		831,191	831,191
Loans and Contracts	66,365	81,808	148,173
Total Current Assets	<u>27,432,946</u>	<u>14,314,868</u>	<u>41,747,814</u>
Non-Current Assets:			
Internal Balances (Note 12)	17,332	(17,332)	
Loans and Contracts	475,551	3,072,737	3,548,288
Investments	24,795,424	5,323,328	30,118,752
Receivables:			
Taxes (Note 24)	325,183		325,183
Federal	26,752		26,752
Gifts		215,973	215,973
Other	42,866	2,081	44,947
Restricted:			
Cash and Cash Equivalents		473,092	473,092
Short Term Investments		124,705	124,705
Investments		25,269,186	25,269,186
Receivables	1	208,254	208,255
Loans and Contracts	623,884	3,143,852	3,767,736
Other	109,539	5,631	115,170
Assets Held in Trust		4,117	4,117
Net Pension Asset (Note 9)	46,175		46,175
Other Non-Current Assets	24,841	94,105	118,946
Capital Assets: (Note 2)			
Capital Assets - Non-Depreciable	49,818,231	4,880,949	54,699,180
Capital Assets - Depreciable	23,077,533	20,085,384	43,162,917
Accumulated Depreciation	(12,577,752)	(9,852,392)	(22,430,144)
Total Non-Current Assets	<u>86,805,560</u>	<u>53,033,670</u>	<u>139,839,230</u>
Total Assets	<u>114,238,506</u>	<u>67,348,538</u>	<u>181,587,044</u>

*Concluded on the following page*

**State of Texas**  
**Statement of Net Assets (concluded)**  
**August 31, 2006 (Amounts in Thousands)**

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Units
<b>LIABILITIES</b>				
Current Liabilities:				
Payables:				
Accounts	\$ 4,504,081	\$ 1,352,409	\$ 5,856,490	\$ 10,978
Payroll	544,654	258,015	802,669	35
Other Intergovernmental	1,009,782	12,109	1,021,891	
Federal	7,092	45,437	52,529	22,162
Investment Trades	3,490	1,318,774	1,322,264	
Interest	228,341	64,936	293,277	2,057
To Fiduciary Funds	10,438		10,438	
Internal Balances (Note 12)	447,313	(447,313)		
Due To Primary Government (Note 12)				300
Due To Component Units (Note 12)	303		303	
Deferred Revenue	798,557	1,917,197	2,715,754	30,951
Obligations/Reverse Repurchase Agreement	107,009		107,009	
Obligations/Securities Lending	4,225,607	2,504,032	6,729,639	
Short Term Debt (Note 4)	4,688,850		4,688,850	
Claims and Judgments (Note 5)	72,046	97,324	169,370	
Capital Lease Obligations (Note 5, 7)	2,951	1,704	4,655	198
Employees' Compensable Leave (Note 5)	395,337	251,795	647,132	3,236
Notes and Loans Payable (Note 5)	29,160	812,434	841,594	46,308
General Obligation Bonds Payable (Note 5, 6)	285,115	102,119	387,234	
Revenue Bonds Payable (Note 5, 6)	103,157	595,926	699,083	6,087
Liabilities Payable From Restricted Assets (Note 5)		717,527	717,527	4,208
Funds Held for Others		117,780	117,780	
Other Current Liabilities	487,811	153,040	640,851	29,664
Total Current Liabilities	17,951,094	9,875,245	27,826,339	156,184
Non-Current Liabilities:				
Claims and Judgments (Note 5)	135,108	109,498	244,606	
Capital Lease Obligations (Note 5, 7)	11,598	10,385	21,983	119
Employees' Compensable Leave (Note 5)	271,190	295,714	566,904	1,338
Notes and Loans Payable (Note 5)	301,639	928,820	1,230,459	138,373
General Obligation Bonds Payable (Note 5, 6)	4,193,776	2,636,566	6,830,342	
Revenue Bonds Payable (Note 5, 6)	1,049,326	11,782,458	12,831,784	256,061
Liabilities Payable From Restricted Assets (Note 5)		3,033,672	3,033,672	212,931
Assets Held for Others		655,313	655,313	
Net Pension Obligation (Note 9)	162,616		162,616	
Other Non-Current Liabilities		281,595	281,595	23,854
Total Non-Current Liabilities	6,125,253	19,734,021	25,859,274	632,676
Total Liabilities	24,076,347	29,609,266	53,685,613	788,860
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	55,473,237	6,871,404	62,344,641	25,571
Restricted for:				
Education	866,269	1,874,241	2,740,510	34,947
Highway Construction	299,757		299,757	
Debt Service	150,441	271,782	422,223	
Capital Projects	82,624	68,559	151,183	
Veterans Land Board Housing Programs		629,302	629,302	
Unemployment Trust Fund		2,151,588	2,151,588	
Funds Held as Permanent Investments:				
Nonexpendable	9,161,738	9,706,850	18,868,588	
Expendable	14,750,646	8,090,473	22,841,119	
Other	681,435	19,489	700,924	3,629
Unrestricted	8,696,012	8,055,584	16,751,596	337,454
Total Net Assets	\$ 90,162,159	\$ 37,739,272	\$127,901,431	\$ 401,601

The accompanying notes to the financial statements are an integral part of this statement.

# State of Texas

## Statement of Activities

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 2,681,117	\$ 1,199,924	\$ 752,771	\$
Education	18,025,550	626,224	6,979,233	
Employee Benefits	56,718	120		
Teacher Retirement Benefits	1,932,325	93,694		
Health and Human Services	28,808,315	1,177,825	19,912,649	
Public Safety and Corrections	5,084,923	441,803	1,058,949	
Transportation	4,452,154	1,373,339	102,860	2,803,001
Natural Resources and Recreation	961,178	570,872	168,776	5
Regulatory Services	282,067	596,705	3,988	
Indirect Interest on Long-Term Debt	54,121			
Total Governmental Activities	<u>62,338,468</u>	<u>6,080,506</u>	<u>28,979,226</u>	<u>2,803,006</u>
Business-Type Activities:				
General Government	162,499	37,245	89,333	
Education	15,982,582	7,284,371	6,660,297	152,729
Teacher Retirement Benefits	813,133	861,648	41	
Health and Human Services	1,253,431	1,862,804	81,390	
Public Safety and Corrections	73,775	79,032		
Transportation	16,339	13		2,812
Natural Resources and Recreation	284,241	33,716	368,999	
Lottery	2,687,084	3,775,491	39	
Total Business-Type Activities	<u>21,273,084</u>	<u>13,934,320</u>	<u>7,200,099</u>	<u>155,541</u>
Total Primary Government	<u>\$83,611,552</u>	<u>\$20,014,826</u>	<u>\$36,179,325</u>	<u>\$ 2,958,547</u>
Component Units				
Component Units	<u>\$ 518,153</u>	<u>\$ 365,177</u>	<u>\$ 205,420</u>	<u>\$</u>
Total Component Units	<u>\$ 518,153</u>	<u>\$ 365,177</u>	<u>\$ 205,420</u>	<u>\$ 0</u>

### General Revenues

#### Taxes:

Sales and Use

Motor Vehicle and Manufactured Housing

Motor Fuels

Franchise

Oil and Natural Gas Production

Insurance Occupation

Cigarette and Tobacco

Other

Unrestricted Investment Earnings

Settlement of Claims

Gain on Sale of Capital Assets

Other General Revenues

Capital Contributions

Contributions to Permanent and Term Endowments

Special Items (Note 23)

Transfers - Internal Activities (Note 12)

Total General Revenues, Contributions,  
and Transfers

#### Change in Net Assets

Net Assets, September 1, 2005

Restatements (Note 14)

Net Assets, September 1, 2005, as Restated

Net Assets, August 31, 2006

The accompanying notes to the financial statements are an integral part of this statement.



Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (728,422)	\$	\$ (728,422)	\$
(10,420,093)		(10,420,093)	
(56,598)		(56,598)	
(1,838,631)		(1,838,631)	
(7,717,841)		(7,717,841)	
(3,584,171)		(3,584,171)	
(172,954)		(172,954)	
(221,525)		(221,525)	
318,626		318,626	
(54,121)		(54,121)	
(24,475,730)	0	(24,475,730)	0
	(35,921)	(35,921)	
	(1,885,185)	(1,885,185)	
	48,556	48,556	
	690,763	690,763	
	5,257	5,257	
	(13,514)	(13,514)	
	118,474	118,474	
	1,088,446	1,088,446	
0	16,876	16,876	0
(24,475,730)	16,876	(24,458,854)	0
			52,444
0	0	0	52,444
18,475,176		18,475,176	
3,046,856		3,046,856	
3,053,476		3,053,476	
2,632,780		2,632,780	
3,441,638		3,441,638	
1,238,846		1,238,846	
547,000		547,000	
1,558,073		1,558,073	
760,207	55,150	815,357	6,819
583,787	94	583,881	
2,762	276	3,038	
1,071,679	91,017	1,162,696	35,306
1,449	3,874	5,323	
	123,939	123,939	
	(38,898)	(38,898)	
(3,513,639)	3,513,639		
32,900,090	3,749,091	36,649,181	42,125
8,424,360	3,765,967	12,190,327	94,569
81,677,916	33,909,713	115,587,629	307,032
59,883	63,592	123,475	
81,737,799	33,973,305	115,711,104	307,032
\$ 90,162,159	\$ 37,739,272	\$ 127,901,431	\$ 401,601

**State of Texas**  
**Balance Sheet – Governmental Funds**  
**August 31, 2006 (Amounts in Thousands)**

	General*	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
<b>ASSETS</b>					
Cash and Cash Equivalents	\$13,456,354	\$ 862,189	\$ 559,122	\$ 1,124,708	\$16,002,373
Short Term Investments	107,641		45,368	62,496	215,505
Securities Lending Collateral			3,992,237	49,628	4,041,865
Receivables:					
Accounts	428,322	23,495	79,994	3,249	535,060
Taxes (Note 24)	2,707,520				2,707,520
Federal	2,152,691	304,711		1,564	2,458,966
Investment Trades				1,632	1,632
Other Intergovernmental	283,206	149,557			432,763
Interest and Dividends	31,431	9,961	99,339	21,439	162,170
Other (Note 1)	106,979				106,979
Due From Other Funds (Note 12)	109,857	387,361	893	76,367	574,478
Due From Component Units (Note 12)	26				26
Interfund Receivable (Note 12)	20,860	1		9	20,870
Inventories	159,015	85,742		639	245,396
Prepaid Items	1,202		965		2,167
Investments			23,226,609	1,134,961	24,361,570
Loans and Contracts	67,759	240,061	1,831	217,133	526,784
Other Assets		16,838		8,035	24,873
Restricted:					
Cash and Cash Equivalents	4,985			252,564	257,549
Receivables				1	1
Loans and Contracts	99,805			590,444	690,249
Other Assets	225			109,314	109,539
<b>Total Assets</b>	<b>\$19,737,878</b>	<b>\$ 2,079,916</b>	<b>\$28,006,358</b>	<b>\$ 3,654,183</b>	<b>\$53,478,335</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 3,025,083	\$ 942,770	\$ 27,150	\$ 32,813	\$ 4,027,816
Investment Trades				3,490	3,490
Other Intergovernmental	1,009,782				1,009,782
Payroll	440,044	96,870	982	6,758	544,654
Federal	7,027			65	7,092
Interest	51,614	9,983	16,274	26,777	104,648
Due To Other Funds (Note 12)	737,625	18,191	21	204,762	960,599
Due To Component Units (Note 12)	303				303
Interfund Payable (Note 12)	187			3,312	3,499
Deferred Revenues	2,261,114	360,012	57,310	747	2,679,183
Obligations/Reverse Repurchase Agreements	107,009				107,009
Obligations/Securities Lending			3,992,237	49,628	4,041,865
Other Liabilities	177,200	307,578		3,033	487,811
Short Term Debt (Note 4)	4,600,000	88,850			4,688,850
<b>Total Liabilities</b>	<b>12,416,988</b>	<b>1,824,254</b>	<b>4,093,974</b>	<b>331,385</b>	<b>18,666,601</b>
Fund Balances/(Deficits):					
Reserved (Note 13)	1,647,838	480,876	23,912,384	1,605,806	27,646,904
Unreserved (Note 13):					
General	5,673,052				5,673,052
Special Revenue		(225,214)		1,135,472	910,258
Capital Projects				6,942	6,942
Permanent				574,578	574,578
<b>Total Fund Balances</b>	<b>7,320,890</b>	<b>255,662</b>	<b>23,912,384</b>	<b>3,322,798</b>	<b>34,811,734</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$19,737,878</b>	<b>\$ 2,079,916</b>	<b>\$28,006,358</b>	<b>\$ 3,654,183</b>	<b>\$53,478,335</b>

The accompanying notes to the financial statements are an integral part of this statement.

\* The Economic Stabilization Fund was previously reported within the Nonmajor Funds column, but is now included in the General column.

# Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

August 31, 2006 (Amounts in Thousands)

**Total Fund Balance – Governmental Funds** \$34,811,734

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets less accumulated depreciation are included in the Statement  
of Net Assets (Note 2):

Capital Assets - Non-Depreciable	\$ 49,818,231	
Capital Assets - Depreciable	23,077,533	
Accumulated Depreciation	<u>(12,577,752)</u>	
		60,318,012

Certain pension funds have been funded in excess of the annual required contributions, creating a year-end asset. The asset is not a current available resource and is not reported in the funds. (Note 9)		46,175
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Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore, are deferred in the funds.		1,881,472
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Long-Term liabilities applicable to the state's governmental activities are  
not due and payable in the current period and accordingly are not reported  
in the funds. However these liabilities are included in the Statement of  
Net Assets. (Note 5 and Note 9)

Claims and Judgments	(207,154)	
Capital Lease Obligations	(14,549)	
Employees' Compensable Leave	(666,527)	
Notes and Loans Payable	(330,799)	
General Obligation Bonds Payable	(4,478,891)	
Revenue Bonds Payable	(1,152,483)	
Net Pension Obligation	<u>(162,616)</u>	
		(7,013,019) *

\* Current Portion = \$887,766 and Non-Current Portion = \$6,125,253

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets.		(123,693)
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The internal service fund is used by management to charge the costs of  
Employees Life, Accident, and Health Insurance Benefits Fund to individual  
funds. Since governmental activities are the predominant activities of  
internal service funds, the assets and liabilities of the internal service funds  
are included in governmental activities in the Statement of Net Assets.

241,478

**Net Assets of Governmental Activities** \$90,162,159

**State of Texas**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Governmental Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	General*	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
<b>REVENUES</b>					
Taxes	\$33,832,092	\$ 34,887	\$	\$	\$33,866,979
Federal	25,252,281	2,935,628		24,118	28,212,027
Licenses, Fees, and Permits	2,651,532	1,007,105		352,371	4,011,008
Interest and Other Investment Income	562,063	47,543	2,378,935	229,691	3,218,232
Land Income	18,642	3,732	438,486	1,085	461,945
Settlement of Claims	581,861	1,510		89	583,460
Sales of Goods and Services	1,107,962	222,787	159,328	12,505	1,502,582
Other	2,091,042	5,800	4,811	56,896	2,158,549
Total Revenues	<u>66,097,475</u>	<u>4,258,992</u>	<u>2,981,560</u>	<u>676,755</u>	<u>74,014,782</u>
<b>EXPENDITURES</b>					
Current:					
General Government	2,291,671	12,488		225,183	2,529,342
Education	16,079,106	50,000	326,765	1,568,749	18,024,620
Employee Benefits	1,140			12,077	13,217
Teacher Retirement Benefits	250			24	274
Health and Human Services	28,717,989	10,000		33,017	28,761,006
Public Safety and Corrections	4,300,612	562,817		75,987	4,939,416
Transportation	8,690	3,877,339		23,022	3,909,051
Natural Resources and Recreation	874,705			55,383	930,088
Regulatory Services	282,323			11,945	294,268
Capital Outlay	101,693	3,775,595	266	60,454	3,938,008
Debt Service:					
Principal	5,400		57	387,770	393,227
Interest	830	9,766		227,689	238,285
Other Financing Fees		460		1,115	1,575
Total Expenditures	<u>52,664,409</u>	<u>8,298,465</u>	<u>327,088</u>	<u>2,682,415</u>	<u>63,972,377</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>13,433,066</u>	<u>(4,039,473)</u>	<u>2,654,472</u>	<u>(2,005,660)</u>	<u>10,042,405</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In (Note 12)	1,404,643	3,544,626		2,394,016	7,343,285
Transfer Out (Note 12)	(9,635,987)	(337,917)	(841,879)	(1,616,817)	(12,432,600)
Bonds and Notes Issued		600,000		840,384	1,440,384
Bonds Issued for Advance Refunding				72,005	72,005
Payment to Escrow for Advance Refunding				(72,005)	(72,005)
Sale of Capital Assets	12,879	4,321		285	17,485
Increase in Obligations Under Capital Leases	2,892			31	2,923
Insurance Recoveries	564	6,678		211	7,453
Total Other Financing Sources (Uses)	<u>(8,215,009)</u>	<u>3,817,708</u>	<u>(841,879)</u>	<u>1,618,110</u>	<u>(3,621,070)</u>
Net Change in Fund Balances	<u>5,218,057</u>	<u>(221,765)</u>	<u>1,812,593</u>	<u>(387,550)</u>	<u>6,421,335</u>
Fund Balances, September 1, 2005	2,037,789	477,427	22,099,791	3,702,801	28,317,808
Restatements (Note 14)	65,044			7,547	72,591
Fund Balances, September 1, 2005, as Restated	<u>2,102,833</u>	<u>477,427</u>	<u>22,099,791</u>	<u>3,710,348</u>	<u>28,390,399</u>
Fund Balances, August 31, 2006	<u>\$ 7,320,890</u>	<u>\$ 255,662</u>	<u>\$23,912,384</u>	<u>\$ 3,322,798</u>	<u>\$34,811,734</u>

The accompanying notes to the financial statements are an integral part of this statement.

\* The Economic Stabilization Fund was previously reported within the Nonmajor Funds column, but is now included in the General column.

# Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

**Net Change in Fund Balances** \$ 6,421,335

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital Outlay	\$ 3,938,008	
Depreciation Expense	(821,590)	
		3,116,418

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.	(14,724)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(1,729,358)
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The internal service fund is used by management to charge the costs of the Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities.	108,225
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The issuance of long-term debt and increase in obligations under capital leases provide current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consumes the current financial resources of governmental funds.

Bonds and Notes Issued	(1,512,389)	
Increase in Obligations under Capital Leases	(2,923)	
Repayment of Bond and Capital Lease Principal	465,232	
		(1,050,080)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	1,572,937
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Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the Statement of Activities. Transfers of capital assets have not been reported in the Governmental Funds.

Capital Asset Transfers	(393)	
Change in Transfers	1,576,069	
Increase in Revenues	94,738	
Increase in Expenses	(1,670,807)	
		(393)

**Change in Net Assets of Governmental Activities** \$ 8,424,360

**State of Texas**  
**Statement of Net Assets**  
**Proprietary Funds**  
**August 31, 2006 (Amounts in Thousands)**

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 2,569,287	\$ 231,709	\$	\$ 625,234	\$ 3,426,230	\$ 27,179
Short Term Investments	317,211	598,790			916,001	151,794
Securities Lending Collateral	2,140,214			363,818	2,504,032	183,742
Restricted:						
Cash and Cash Equivalents	660,462			2,513,270	3,173,732	
Short Term Investments	335,371		211,486	284,334	831,191	
Loans and Contracts	8,807			73,001	81,808	
Receivables:						
Federal	297,063	1,458		6,539	305,060	
Other Intergovernmental	43,653				43,653	
Accounts	364,163	993	1,309	263,691	630,156	106,469
Interest and Dividends	78,476	33,764	8,037	57,936	178,213	156
Gifts	114,393				114,393	
Investment Trades	501,259			107,342	608,601	
Other (Note 1)	835,209			1,590	836,799	
Due From Other Funds (Note 12)	434,000		1,827	40,724	476,551	19
Interfund Receivable (Note 12)	22,920				22,920	
Inventories	112,049			13,126	125,175	
Prepaid Items	65,827			7,959	73,786	
Loans and Contracts	85,948	113,416		85,634	284,998	
Other Current Assets	180,912			128	181,040	
Total Current Assets	9,167,224	980,130	222,659	4,444,326	14,814,339	469,359
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents	72,557		395,005	5,530	473,092	
Short Term Investments	1,722		122,983		124,705	
Investments	20,807,063		200,408	4,261,715	25,269,186	
Receivables	4,767			203,487	208,254	
Loans and Contracts	109,242			3,034,610	3,143,852	
Other	2,559			3,072	5,631	
Loans and Contracts	34,564	3,014,750		23,423	3,072,737	
Investments	5,323,328				5,323,328	433,854
Interfund Receivable	405,970				405,970	
Other Receivables	2,081				2,081	
Gifts Receivable	215,973				215,973	
Capital Assets: (Note 2)						
Non-Depreciable	2,652,061		2,214,410	14,478	4,880,949	
Depreciable	19,980,020		21,250	84,114	20,085,384	
Accumulated Depreciation	(9,825,313)		(490)	(26,589)	(9,852,392)	
Assets Held in Trust	362			3,755	4,117	
Other Non-Current Assets	30,018	626	50,022	13,439	94,105	
Total Non-Current Assets	39,816,974	3,015,376	3,003,588	7,621,034	53,456,972	433,854
Total Assets	48,984,198	3,995,506	3,226,247	12,065,360	68,271,311	903,213

*Concluded on the following page*

**State of Texas**  
**Statement of Net Assets**  
**Proprietary Funds (concluded)**  
**August 31, 2006 (Amounts in Thousands)**

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals		
<b>LIABILITIES</b>							
Current Liabilities:							
Payables:							
Accounts	\$ 1,082,669	\$ 43	\$ 62,914	\$ 206,783	\$ 1,352,409	\$ 476,265	
Payroll	254,619			3,396	258,015		
Other Intergovernmental	12,109				12,109		
Federal	45,437				45,437		
Investment Trades	1,203,633			115,141	1,318,774		
Interest	4,334	11,605		48,997	64,936		
Due To Other Funds (Note 12)	10,663	1,900		16,640	29,203		882
Interfund Payable (Note 12)	22,920			36	22,956		
Deferred Revenue	1,775,457	36,789	37,103	67,848	1,917,197		846
Obligations/Securities Lending	2,140,214			363,818	2,504,032		183,742
Claims and Judgments (Note 5)	97,324				97,324		
Capital Lease Obligations (Note 5, 7)	1,590			114	1,704		
Employees' Compensable Leave (Note 5)	248,913			2,882	251,795		
Notes and Loans Payable (Note 5)	674,504		124,930	13,000	812,434		
General Obligation Bonds Payable (Note 5, 6)	4,690	39,435		57,994	102,119		
Revenue Bonds Payable (Note 5, 6)	334,559	38,925		222,442	595,926		
Liabilities Payable From Restricted Assets (Note 5)	306,680			410,847	717,527		
Funds Held for Others	117,780				117,780		
Other Current Liabilities	93,384		39,489	20,167	153,040		
Total Current Liabilities	8,431,479	128,697	264,436	1,550,105	10,374,717		661,735
Non-Current Liabilities:							
Interfund Payable (Note 12)	423,302				423,302		
Claims and Judgments (Note 5)	109,498				109,498		
Capital Lease Obligations (Note 5, 7)	9,940			445	10,385		
Employees' Compensable Leave (Note 5)	294,163			1,551	295,714		
Notes and Loans Payable (Note 5)	131,067		797,753		928,820		
Liabilities Payable From Restricted Assets (Note 5)				3,033,672	3,033,672		
General Obligation Bonds Payable (Note 5, 6)	58,308	847,905		1,730,353	2,636,566		
Revenue Bonds Payable (Note 5, 6)	6,331,153	1,195,375	1,402,339	2,853,591	11,782,458		
Assets Held for Others	651,557			3,755	655,312		
Other Non-Current Liabilities	109,751			171,844	281,595		
Total Non-Current Liabilities	8,118,739	2,043,280	2,200,092	7,795,211	20,157,322		0
Total Liabilities	16,550,218	2,171,977	2,464,528	9,345,316	30,532,039		661,735
<b>NET ASSETS</b>							
Invested in Capital Assets, Net of Related Debt	6,063,716		761,719	45,969	6,871,404		
Restricted for:							
Education	1,874,241				1,874,241		
Debt Retirement	17,241			254,541	271,782		
Capital Projects	68,559				68,559		
Veterans Land Board Housing Programs				629,302	629,302		
Unemployment Trust Funds				2,151,588	2,151,588		
Funds Held as Permanent Investments:							
Nonexpendable	9,706,850				9,706,850		
Expendable	8,090,473				8,090,473		
Other				19,489	19,489		241,478
Unrestricted	6,612,900	1,823,529		(380,845)	8,055,584		
Total Net Assets	\$ 32,433,980	\$ 1,823,529	\$ 761,719	\$ 2,720,044	\$ 37,739,272	\$ 241,478	

The accompanying notes to the financial statements are an integral part of this statement.

\* Employees Life, Accident, and Health Insurance Benefits Fund – No combining statements presented.



# State of Texas

## Statement of Revenues, Expenses, and Changes in Fund Net Assets

### Proprietary Funds

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds		
<b>OPERATING REVENUES</b>						
Lottery Collections	\$	\$	\$	\$ 3,775,060	\$ 3,775,060	\$
Tuition Revenue	477,313				477,313	
Tuition Revenue - Pledged	2,400,393				2,400,393	
Discounts and Allowances	(552,109)				(552,109)	
Hospital Revenue - Pledged	5,311,046				5,311,046	
Discounts and Allowances	(2,736,196)				(2,736,196)	
Professional Fees	2,941,064				2,941,064	
Professional Fees - Pledged	8,533				8,533	
Discounts and Allowances	(1,975,289)				(1,975,289)	
Auxiliary Enterprises	49,089				49,089	
Auxiliary Enterprises - Pledged	751,495			78,310	829,805	
Discounts and Allowances	(34,120)				(34,120)	
Unemployment Taxes				1,862,804	1,862,804	
Other Sales of Goods and Services	79,730			30,034	109,764	
Other Sales of Goods and Services - Pledged	374,841			24,236	399,077	
Discounts and Allowances	(451)				(451)	
Interest and Investment Income	1,184	67,955		185,166	254,305	
Interest and Investment Income - Pledged	907	112,073			112,980	
Federal Revenue	2,151,408			94,748	2,246,156	19,360
State Grant Revenue	228,947				228,947	
Premium Revenue				861,648	861,648	1,835,366
Other Operating Grant Revenue	344,147				344,147	
Other Operating Grant Revenue - Pledged	465,788				465,788	
Other Revenues	59,154	3,144		121,295	183,593	528
Other Revenues - Pledged	106,485			72	106,557	
Total Operating Revenues	10,453,359	183,172	0	7,033,373	17,669,904	1,855,254
<b>OPERATING EXPENSES</b>						
Cost of Goods Sold	140,018			57,823	197,841	
Salaries and Wages	7,663,183	6,923		41,339	7,711,445	5,768
Payroll Related Costs	1,780,195	1,041		10,565	1,791,801	1,445
Professional Fees and Services	634,370	726	420	63,211	698,727	960
Travel	212,724	55		687	213,466	44
Materials and Supplies	1,370,388	245	5,253	4,036	1,379,922	628
Communication and Utilities	610,787	52		948	611,787	298
Repairs and Maintenance	283,464	78	310	1,515	285,367	344
Rentals and Leases	172,737	47		9,505	182,289	367
Printing and Reproduction	54,785	4		15,209	69,998	25
Depreciation and Amortization	850,919		490	5,391	856,800	
Unemployment Benefit Payments				1,224,820	1,224,820	
Bad Debt Expense	10,156			1,127	11,283	
Interest Expense	2,493	124,630		209,544	336,667	
Scholarships	572,818				572,818	
Lottery Prize Payments				2,502,185	2,502,185	
Employee/Participant Benefit Payments				953,927	953,927	1,760,073
Claims and Judgments	25,381				25,381	
Other Expenses	910,111	336	9,260	158,475	1,078,182	428
Total Operating Expenses	15,294,529	134,137	15,733	5,260,307	20,704,706	1,770,380
Operating Income (Loss)	(4,841,170)	49,035	(15,733)	1,773,066	(3,034,802)	84,874

Concluded on the following page

**State of Texas**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds (concluded)**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund*
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	\$ 34,547	\$ 72,575	\$	\$ 6,756	\$ 113,878	\$
Gifts	422,353			5	422,358	
Gifts - Pledged	52,823				52,823	
Land Income	6,116		13		6,129	
Interest and Investment Income (Loss)	2,275,173		(7,245)	191,879	2,459,807	22,565
Interest and Investment Income - Pledged	521,997				521,997	
Loan Premium and Fees on Securities Lending				13,044	13,044	7,943
Investing Activities Expense	(139,757)			(8)	(139,765)	
Interest Expense	(294,443)		(7)	(28,697)	(323,147)	
Borrower Rebates and Agent Fees	(378)			(13,901)	(14,279)	(7,485)
Gain on Sale of Capital Assets	(38,744)			16	(38,728)	
Settlement of Claims	41		53		94	328
Claims and Judgments	(1,596)			(4)	(1,600)	
Other Revenues	(20,899)	1,131		217	(19,551)	
Other Revenues - Pledged	40,197				40,197	
Other Expenses	(43,442)	(4,884)	(599)	(1,660)	(50,585)	
Total Nonoperating Revenues (Expenses)	2,813,988	68,822	(7,785)	167,647	3,042,672	23,351
Income (Loss) Before Capital Contributions, Endowments, and Transfers						
	(2,027,182)	117,857	(23,518)	1,940,713	7,870	108,225
CAPITAL CONTRIBUTIONS, ENDOWMENTS, SPECIAL ITEMS, AND TRANSFERS						
Capital Contributions - Federal	47,905				47,905	
Capital Contributions - Other	109,093		2,812		111,905	
Contributions to Permanent and Term Endowments	123,939				123,939	
Special Items	(38,898)				(38,898)	
Transfer In (Note 12)	4,747,416	3,637	289,569	19,498	5,060,120	
Transfer Out (Note 12)	(418,886)	(9,810)		(1,118,178)	(1,546,874)	
Total Capital Contributions, Endowments, Special Items, and Transfers	4,570,569	(6,173)	292,381	(1,098,680)	3,758,097	0
Change in Net Assets	2,543,387	111,684	268,863	842,033	3,765,967	108,225
Net Assets, September 1, 2005	29,827,000	1,711,845	492,856	1,878,012	33,909,713	133,253
Restatements (Note 14)	63,593			(1)	63,592	
Net Assets, September 1, 2005, as Restated	29,890,593	1,711,845	492,856	1,878,011	33,973,305	133,253
Net Assets, August 31, 2006	\$32,433,980	\$ 1,823,529	\$ 761,719	\$ 2,720,044	\$37,739,272	\$ 241,478

The accompanying notes to the financial statements are an integral part of this statement.

\* Employees Life, Accident, and Health Insurance Benefits Fund – No combining statements presented.

# State of Texas

## Statement of Cash Flows

### Proprietary Funds

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from Customers	\$ 3,745,339	\$	\$	\$ 6,769,119	\$ 10,514,458
Proceeds from Tuition and Fees	2,398,450				2,398,450
Proceeds from Research Grants and Contracts	3,514,854			82,244	3,597,098
Proceeds from Gifts	3,147				3,147
Proceeds from Loan Programs	205,964			706,289	912,253
Proceeds from Auxiliaries	745,007				745,007
Proceeds from Other Revenues	678,329			143,170	821,499
Payments to Suppliers for Goods and Services	(4,700,164)	(1,443)	(13,899)	(1,280,285)	(5,995,791)
Payments to Employees	(9,328,378)	(7,623)		(49,331)	(9,385,332)
Payments for Loans Provided	(213,767)			(776,325)	(990,092)
Payments for Other Expenses	(577,346)	(52)		(3,636,162)	(4,213,560)
Net Cash Provided by Operating Activities	(3,528,565)	(9,118)	(13,899)	1,958,719	(1,592,863)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Proceeds from Debt Issuance		124		678,066	678,190
Proceeds from State Appropriations	3,822,994	3,637			3,826,631
Proceeds from Gifts	447,131				447,131
Proceeds from Endowments	110,354				110,354
Proceeds from Transfers from Other Funds	193,721	257,195		3,812,082	4,262,998
Proceeds from Grant Receipts	33,368	75,232			108,600
Proceeds of Advances from Other Funds	662	32,215			32,877
Proceeds from Loan Programs	34,416				34,416
Proceeds from Other Financing Activities	183,698			22,173	205,871
Proceeds from Contributed Capital	182				182
Payments of Principal on Debt Issuance	(5,097)	(106,683)		(659,432)	(771,212)
Payments of Interest	(221)	(124,151)		(330,284)	(454,656)
Payments of Other Costs on Debt Issuance	(250)			(4,611)	(4,861)
Payments for Transfers to Other Funds	(40,343)	(259,257)		(4,916,451)	(5,216,051)
Payments for Grant Disbursements	(185)	(15,509)			(15,694)
Payments for Advances to Other Funds		(53,592)			(53,592)
Payments for Other Uses	(104,003)			(163,181)	(267,184)
Net Cash Provided by Noncapital Financing Activities	4,676,427	(190,789)	0	(1,561,638)	2,924,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from Sale of Capital Assets	12,115				12,115
Proceeds from Debt Issuance	1,918,137				1,918,137
Proceeds from State Grants and Contracts	22,236				22,236
Proceeds from Gifts	3,874				3,874
Proceeds from Other Financing Activities	26,810		13	7,163	33,986
Proceeds from Capital Contributions	312,569		1,205		313,774
Proceeds of Advances from Other Funds	37,680			3,197	40,877
Payments for Additions to Capital Assets	(1,866,608)		(258,948)	(10,135)	(2,135,691)
Payments of Principal on Debt Issuance	(1,064,960)			(1,234)	(1,066,194)
Payments for Capital Leases	(350)				(350)
Payments of Interest on Debt Issuance	(307,438)		(86,580)		(394,018)
Payments of Other Costs on Debt Issuance	(11,464)		(2,440)		(13,904)
Net Cash Provided by Capital and Related Financing Activities	(917,399)	0	(346,750)	(1,009)	(1,265,158)

Concluded on the following page

**State of Texas**  
**Statement of Cash Flows**  
**Proprietary Funds (concluded)**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from Sale of Investments	\$ 34,558,489	\$ 38,558	\$ 2,826,708	\$ 1,391,070	\$ 38,814,825	\$
Proceeds from Interest and Investment Income	1,168,284	182,663	47,916	542,619	1,941,482	2,254
Proceeds from Principal Payments on Loans		283,121			283,121	
Payments for Non-Program Loans Provided		(269,689)			(269,689)	
Payments to Acquire Investments	(36,875,402)	(42,194)	(2,675,187)	(1,805,025)	(41,397,808)	(113,395)
Net Cash Provided by Investing Activities	(1,148,629)	192,459	199,437	128,664	(628,069)	(111,141)
Net Increase (Decrease) in Cash and Cash Equivalents	(918,166)	(7,448)	(161,212)	524,736	(562,090)	(9,802)
Cash and Cash Equivalents, September 1, 2005	4,220,658	239,157	556,217	2,619,297	7,635,329	36,981
Restatements	(186)			1	(185)	
Cash and Cash Equivalents, September 1, 2005, as Restated	4,220,472	239,157	556,217	2,619,298	7,635,144	36,981
Cash and Cash Equivalents, August 31, 2006	\$ 3,302,306	\$ 231,709	\$ 395,005	\$ 3,144,034	\$ 7,073,054	\$ 27,179
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating Income (Loss)	\$ (4,841,170)	\$ 49,035	\$ (15,733)	\$ 1,773,066	\$ (3,034,802)	\$ 84,874
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	850,919		490	5,391	856,800	
Bad Debt Expense	241,487			1,127	242,614	
Operating Income (Loss) and Cash Flow Categories Classification Differences	568	(58,455)		174,939	117,052	327
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(230,133)	321		164,033	(65,779)	(16,952)
(Increase) Decrease in Due From Other Funds	11,582			(6)	11,576	173
(Increase) Decrease in Inventories	6,930			2,097	9,027	
(Increase) Decrease in Notes Receivable	890				890	
(Increase) Decrease in Loans and Contracts	(2,606)			(201,408)	(204,014)	
(Increase) Decrease in Other Assets	321,139			2,964	324,103	
(Increase) Decrease in Prepaid Expenses	4,643			1,462	6,105	
(Increase) Decrease in State Appropriations	(5,130)				(5,130)	
Increase (Decrease) in Payables	32,744	(166)	1,344	(3,146)	30,776	32,893
Increase (Decrease) in Deposits	10,009			5,804	15,813	
Increase (Decrease) in Due To Other Funds	(8,264)	147		(1,053)	(9,170)	36
Increase (Decrease) in Deferred Revenue	26,904			32,701	59,605	(12)
Increase (Decrease) in Compensated Absence Liability	37,262			(46)	37,216	
Increase (Decrease) in Benefits Payable	2,501			67,595	70,096	
Increase (Decrease) in Other Liabilities	11,160			(66,801)	(55,641)	
Total Adjustments	1,312,605	(58,153)	1,834	185,653	1,441,939	16,465
Net Cash Provided by Operating Activities	\$ (3,528,565)	\$ (9,118)	\$ (13,899)	\$ 1,958,719	\$ (1,592,863)	\$ 101,339
<b>NON CASH TRANSACTIONS</b>						
Net Change in Fair Value of Investments	\$ (775,789)		\$ 7,245	\$ 11,139	\$ (757,405)	\$ 4,834
Donation of Capital Assets	\$ (37,270)				\$ (37,270)	
Borrowing Under Capital Lease Purchase	\$ (544)				\$ (544)	
Other	\$ (46,815)				\$ (46,815)	

The accompanying notes to the financial statements are an integral part of this statement.

\* Employees Life, Accident, and Health Insurance Benefits Fund – No combining statements presented.

# State of Texas

## Statement of Fiduciary Net Assets

August 31, 2006 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private- Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,065,296	\$ 7	\$ 26,942	\$ 741,424
Restricted Cash and Cash Equivalents			313	
Securities Lending Collateral	15,781,876		99,736	
Investments:				
U.S. Government	17,711,113	2,303,523	83,127	503,886
Corporate Equity	60,923,447		332,923	105,595
Corporate Obligations	15,288,508		78,664	84
Repurchase Agreements	150,023	10,411,161	466,187	15,643
Foreign Securities	22,314,639		8,325	
Other	6,937,923		1,901,198	21,602
Receivables:				
Interest and Dividends	398,213	21,909	5,138	2,878
Accounts	286,465		224	20,921
Other Intergovernmental				1,273
Investment Trades	704,592		3,830	
Other	770		443	38
Due From Other Funds (Note 12)	15,505			1
Due From Component Units (Note 12)				274
Inventories			1	
Properties, at Cost, net of Accumulated				
Depreciation	35,955		1,075	
Other Assets	101		88,578	1,662,400
Total Assets	142,614,426	12,736,600	3,096,704	3,076,019
<b>LIABILITIES</b>				
Payables:				
Accounts	42,287	61,735	3,160	14,618
Investment Trades	2,606,507	66,000	7,538	
Payroll	105,536			
Other Intergovernmental				625,569
Interest			40	
Other Liabilities	460,899	772		
Deferred Revenue	34,561		46	
Due To Other Funds (Note 12)	74,284			1,586
Interfund Payable (Note 12)				3
Employees' Compensable Leave	4,374			
Obligations/Securities Lending	15,781,876		99,736	
Funds Held for Others			88,578	2,434,243
Total Liabilities	19,110,324	128,507	199,098	3,076,019
<b>NET ASSETS</b>				
Held in Trust for:				
Pension Benefits and Other Purposes	123,504,102			
Individuals, Organizations, and Other Governments			2,897,606	
Pool Participants		12,608,093		
Total Net Assets	\$ 123,504,102	\$ 12,608,093	\$ 2,897,606	\$ 0

The accompanying notes to the financial statements are an integral part of this statement.

**State of Texas**  
**Statement of Changes in Fiduciary Net Assets**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private- Purpose Trust Funds
<b>ADDITIONS</b>			
Contributions:			
Member Contributions	\$ 2,337,344	\$	\$
State Contributions	326,790		
Transfer In of Contributions (Note 12)	1,642,414		
Premium Contributions	585,636		
Federal Contributions	34,612		1,418
Other Contributions	268,062		48,746
Total Contributions	<u>5,194,858</u>	<u>0</u>	<u>50,164</u>
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	7,459,692		175,790
Interest and Investment Income	3,344,538	667,997	65,358
Total Investing Income	<u>10,804,230</u>	<u>667,997</u>	<u>241,148</u>
Less Investing Activities Expense	40,566	7,391	618
Net Income from Investing Activities	<u>10,763,664</u>	<u>660,606</u>	<u>240,530</u>
From Securities Lending Activities:			
Securities Lending Income	770,715		3,818
Less Securities Lending Expense:			
Borrower Rebates	716,693		3,672
Management Fees	8,513		
Net Income from Securities Lending	<u>45,509</u>	<u>0</u>	<u>146</u>
Total Net Investment Income	<u>10,809,173</u>	<u>660,606</u>	<u>240,676</u>
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	<u>0</u>	<u>250,188</u>	<u>0</u>
Other Additions:			
Settlement of Claims	145		3,941
Other Revenue	655		140,006
Loss on Sale of Properties	(8)		
Transfer In (Note 12)	82,419		
Total Other Additions	<u>83,211</u>	<u>0</u>	<u>143,947</u>
Total Additions	<u>16,087,242</u>	<u>910,794</u>	<u>434,787</u>
<b>DEDUCTIONS</b>			
Benefits	7,694,278		12,047
Refunds of Contributions	341,166		
Transfer Out (Note 12)	147,690		1,074
Intergovernmental Payments	(66)		74,714
Administrative Expenses	40,398		7,229
Depreciation Expense	2,263		39
Settlement of Claims			53,133
Interest Expense	79		37
Other Expenses	2,866		109,887
Total Deductions	<u>8,228,674</u>	<u>0</u>	<u>258,160</u>
<b>INCREASE IN NET ASSETS</b>	<u>7,858,568</u>	<u>910,794</u>	<u>176,627</u>
<b>NET ASSETS</b>			
Net Assets, September 1, 2005	115,664,077	11,683,196	2,720,979
Restatements (Note 14)	(18,543)	14,103	
Net Assets, September 1, 2005, as Restated	<u>115,645,534</u>	<u>11,697,299</u>	<u>2,720,979</u>
Net Assets, August 31, 2006	<u>\$123,504,102</u>	<u>\$ 12,608,093</u>	<u>\$ 2,897,606</u>

The accompanying notes to the financial statements are an integral part of this statement.





**STATE OF TEXAS**  
**INDEX FOR NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended August 31, 2006**

	Page
NOTE 1 – Summary of Significant Accounting Policies . . . . .	55
NOTE 2 – Capital Assets . . . . .	64
NOTE 3 – Deposits, Investments, and Repurchase Agreements . . . . .	67
NOTE 4 – Short-Term Debt . . . . .	79
NOTE 5 – Long-Term Liabilities . . . . .	80
NOTE 6 – Bonded Indebtedness . . . . .	81
NOTE 7 – Capital Leases . . . . .	97
NOTE 8 – Operating Leases . . . . .	98
NOTE 9 – Retirement Systems . . . . .	98
NOTE 10 – Deferred Compensation . . . . .	106
NOTE 11 – Postemployment Health Care and Life Insurance Benefits . . . . .	106
NOTE 12 – Interfund Activity and Transactions . . . . .	107
NOTE 13 – Fund Balances/Net Assets . . . . .	111
NOTE 14 – Adjustments to Fund Balances/Net Assets . . . . .	112
NOTE 15 – Contingent Liabilities . . . . .	113
NOTE 16 – Subsequent Events . . . . .	114
NOTE 17 – Risk Management . . . . .	115
NOTE 18 – Contested Taxes . . . . .	116
NOTE 19 – Component Units and Related Organizations . . . . .	117
NOTE 20 – Deficit Fund Balances/Net Assets . . . . .	120
NOTE 21 – Tobacco Settlement . . . . .	121
NOTE 22 – Donor-Restricted Endowments . . . . .	121
NOTE 23 – Extraordinary and Special Items . . . . .	122
NOTE 24 – Taxes Receivable . . . . .	122
NOTE 25 – Termination Benefits . . . . .	123
NOTE 26 – Segment Information . . . . .	123



## NOTE 1

### Summary of Significant Accounting Policies

#### BASIS OF PRESENTATION

The accompanying basic financial statements of the State of Texas have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The state implemented the following GASB Statements and GASB Technical Bulletin in fiscal year 2006.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, was implemented. This statement establishes accounting and financial reporting standards for impairment of capital assets. It also clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1*, was implemented. This statement improves the understandability and usefulness of statistical section information.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation an amendment of GASB Statement No. 34*, was implemented. This statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*, was implemented. This statement establishes standards for reporting voluntary and involuntary termination benefits when the offer is accepted and the amount can be estimated.

GASB Technical Bulletin 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the*

*Retiree Drug Subsidy Provisions of Medicare Part D*, was partially implemented in fiscal year 2006. The bulletin pertains to agencies administering Other Postemployment Benefit (OPEB) plans. The portion implemented established guidelines to record Medicare Part D reimbursements received from the federal government in relation to prescription drug benefits. The portion of the bulletin to be implemented after fiscal year 2006 pertains specifically to measurement, recognition, or the required supplementary information requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. That portion will be implemented simultaneously with the implementation of GASB Statement No. 43 and GASB Statement No. 45.

Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principals Board (APB) Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.



#### FINANCIAL REPORTING ENTITY

For financial reporting purposes, the State of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities, and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range

of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits, and teacher retirement benefits.

The reporting entity for the state is in accordance with the criteria established by the GASB. A listing and brief summary of the component units and their relationship to the State of Texas is discussed in Note 19. These financial statements present the State of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

## FINANCIAL REPORTING STRUCTURE

The basic financial statements include both Government-wide Financial Statements and Fund Financial Statements. The reporting model based on the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, focuses on the state as a whole in the Government-wide Financial Statements and major individual funds in the Fund Financial Statements.

### Government-wide Financial Statements

The Government-wide Financial Statements (Statement of Net Assets and Statement of Activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), as well as its discretely presented component units. In the Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on a full accrual, economic resource basis, which incorporates non-current investments, capital assets, as well as long-term debt and obligations.

The Statement of Activities reflects both the gross and net cost per functional category (public safety, transportation, etc.), which is otherwise supported by general government revenues (sales, use, franchise taxes, etc.). In the Statement of Activities, program revenues are netted against program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses have been charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses. The amount of direct interest expense included in direct expenses in the Statement of Activities is \$56.3 million.

Program revenues include (a) charges for services, (b) operating grants and contributions, and (c) capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The state's fiduciary funds are presented in the Fund Financial Statements by type (pension, investment trust, private-purpose, and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the Government-wide Financial Statements.

### Fund Financial Statements

The Fund Financial Statements are presented after the Government-wide Financial Statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format, which distinguishes between all current and non-current assets and liabilities. Current assets in the classified format are those considered

available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables, and short-term investments. All other assets are considered non-current. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the Fund Financial Statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements, (b) the source and use of financial resources, and (c) how the state's actual experience conforms to the budget. Since the governmental Fund Financial Statements are presented using a different measurement focus and basis of accounting than the Government-wide Financial Statements, governmental activities column, a reconciliation is presented. This explains the adjustments required to restate the fund-based financial statements for the Government-wide Financial Statements' governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

### Governmental Fund Types

Governmental Funds focus on the sources and uses of funds. Included in the Governmental Fund Financial Statements are General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds. The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special Revenue Funds account for specific revenue proceeds, which are legally restricted for specific purposes. Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Capital Projects Funds account for financial resources used for the acquisition, repair, renovation, or construction

of major capital facilities other than those financed by proprietary or similar trust funds. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** includes transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring, and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the Available School Fund.

### Proprietary Fund Types

Proprietary Funds focus on determining operating income, changes in net assets, financial position, and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary Fund Financial Statements are Enterprise Funds and an Internal Service Fund.

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity;
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges; or
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal Service Funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The **Employees Life, Accident, and Health Insurance Benefits Fund**, presented on the proprietary Fund Financial Statements, is used to account for the services provided by the Group Insurance program to other agencies of the reporting entity.

The state's major Enterprise Funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University, and Texas State Technical College. They are represented as a single column in the proprietary Fund Financial Statements, and individually in the Schedules - Colleges and Universities in the Other Supplementary Information section of this report.

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds, and water pollution control revolving funds, which issue bonds to provide assistance to political subdivisions.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing, and constructing the initial phase (referred to as the "FY2002 Project") of the Central Texas Turnpike System.

### Fiduciary Fund Types

Fiduciary Funds account for assets held by the state, in either a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and Other Employee Benefit Trust Funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9. The state's deferred compensation plan, established under Internal Rev-

enue Code (IRC) Section 457, *Deferred Compensation Plans of State and Local Governmental Employers*, is accounted for under the requirements of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended by GASB Statement No. 34. This plan is also reported as a Pension and Other Employee Benefit Trust Fund.

Investment Trust Funds report the external portions of investment pools reported by the sponsoring government.

Private-Purpose Trust Funds report all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Agency Funds report assets the state holds on behalf of others in a purely custodial capacity. Agency Funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations, or other governments.

### Component Units

All of the component units for the State of Texas are reported as nonmajor component units. The Combining Statement of Net Assets – Component Units and the Combining Statement of Activities – Component Units are presented for all of the discrete component units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

## BASIS OF ACCOUNTING, MEASUREMENT FOCUS, AND FINANCIAL STATEMENT PRESENTATION

Government-wide Financial Statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources, and obligations of the reporting government, both current and non-current, are reported in the Government-wide Financial Statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses,

assets, and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter.

Tax, grant, interest, tuition, and sales of goods and services that are associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available only when cash is received by the state.

Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the accrual basis of accounting, they do not have a measurement focus, because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the Government-wide Financial Statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the Government-wide Financial Statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities, rather than

as expenditures. Proprietary fund types, pension trust funds, investment trust funds, and private-purpose trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Budgets and Budgetary Accounting**

The Texas Constitution requires the State Comptroller to submit a Biennial Revenue Estimate to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect, and estimated expenditures from prior appropriations. The Constitution also requires the State Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue not dedicated by the Constitution that is available for spending for the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the State Comptroller for certification. If the State Comptroller certifies that appropriated amounts are avail-



able in the affected funds, the bill is sent to the Governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The Governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the Governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The State Comptroller is responsible for controlling, accounting, and reporting expenditures in accordance with the expenditure budgets.

The level of legal control for the budget is established at the Strategy (line item) level by agency. For example, “Highway Patrol”, “Driver License and Records”, and “Vehicle Inspection Program” are three of the strategies for the Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the State Comptroller to ensure the agency’s authorized budget is not exceeded.

The level of legal control for all agencies is documented in the “Appropriation Summary Report”, which is available by request from the Comptroller’s office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal year 2006, \$1.2 million was transferred to the Adjutant General’s Department to assist with disaster recovery cash flow needs. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day “lapse” period. Other appropriations referred to as “reappropriated unexpended balances” represent the continuation of a prior year’s balances for completion of a program.

The Budgetary Comparison Schedule, in the Required Supplementary Information Other Than MD&A section, presents the original budget, the final budget, and the actual activity of the major governmental funds. A reconciliation

for the General Fund and the State Highway Fund budgetary basis to the GAAP basis is presented as Required Supplementary Information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as Other Supplementary Information.

### **Cash and Cash Equivalents**

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the Federal and State Treasuries, and cash equivalents. Cash in local banks is primarily held by Special Revenue Funds, Enterprise Funds, Fiduciary Funds, and Component Units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division - Comptroller’s office. Interest earned is deposited in the General Revenue Fund and specified funds designated by law.

The Statement of Cash Flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for Securities Lending are not included as cash equivalents on the Statement of Cash Flows.

### **Investments**

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or Statement of Activities. The distribution to the Available School Fund is based on the total return based



formula methodology discussed in the Permanent School Fund section of Management's Discussion and Analysis (MD&A). The amount of transfers allocated to the Available School Fund is \$841.9 million. The objective, significant terms, and risks of derivative investments at August 31, 2006, can be found in Note 3.

### **Receivables and Payables**

The major receivable for governmental activities and business-type activities are taxes and tuition, respectively. See Note 24 for details on Taxes Receivable. All receivables are shown net of uncollectible amounts. Other Receivables consist primarily of food stamp and nutrition assistance program receivables in the General Fund and receivables from private sponsored programs in the Colleges and Universities Fund. The major portion of Other Current Liabilities is composed of tax refunds payable and unclaimed property in the General Fund, retainage contract payables in the State Highway Fund, and insurance, bond, funds held for endowments, and student liabilities in the Colleges and Universities Fund.

Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "Due To/From Other Funds." Any residual balances between governmental and business-type activities are reported in the Government-wide Financial Statements as "internal balances."

Non-Current Interfund Receivables between funds, as shown in Note 12, are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade Receivables are reported for sales of investments pending settlement. Trade Payables are purchases of investments pending settlement.

### **Inventories and Prepaid Items**

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both Government-wide Financial Statements and Fund Financial Statements.

### **Restricted Assets**

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

### **Capital Assets**

Capital assets are reported in proprietary funds, trust funds, and Government-wide Financial Statements. Capital assets are defined by the state as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of at least three years. Detailed information of capital assets can be found in Note 2.

GASB Statement No. 34 allows an alternative (modified) approach, which reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the Required Supplementary Information Other Than MD&A section of this report.

### **Long-Term Liabilities**

Reporting long-term liabilities in the Statement of Net Assets requires two components (a) the amount due in one year (current) and (b) the amount due in more than one year (non-current).

General long-term liabilities consist of the non-current portion of capital lease obligations, compensable leave, claims and judgments, and other non-current liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the Government-wide Statement of Net Assets. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include non-current liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the Government-wide Financial Statements and proprietary Fund Financial Statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental Fund Financial Statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime, and sick leave) by state and local governmental entities. GASB Statement No. 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

**Annual leave**, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is

probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination, or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

**Overtime**, under the federal Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one and one-half hours for each overtime hour worked), for non-exempt, non-emergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and non-current liabilities for each employee since it may be used like compensatory time or be paid.

**Compensatory leave** is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is non-transferable. Compensatory leave is reported as a current liability.

**Sick leave** is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. However, the probability of a material impact on state operations in any given fiscal year is considered remote.

### Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease

payments under capital lease contracts. Note 7 provides details for capital lease obligations.

### **Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities, because the commitments will be honored during the subsequent year or years.

### **Net Assets**

Invested in Capital Assets, Net of Related Debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of Invested in Capital Assets, Net of Related Debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net assets are designated as either expendable or nonexpendable. Expendable restricted net assets are those funds that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted net assets are those funds that are required to be retained in perpetuity. Restricted net assets include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund Balance Reserve and Designated Fund balances for governmental funds are classified to reserved, unreserved/designated, or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents disaggregated fund balances.

### **Interfund Activity and Transactions – Government-wide Financial Statement**

GASB Statement No. 34 established a classification system with terms and definitions for interfund activity and modified requirements for reporting transfers.

#### ***Interfund Activity***

As a general rule, the effect of interfund activity has been eliminated from the Government-wide Financial Statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds has been reclassified and reported as external activity.

Interfund payables and receivables have been eliminated from the Statement of Net Assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the Statement of Net Assets. Interfund activities between the primary government and component units with a different year-end are limited and immaterial. Note 12 provides details of interfund activities and transactions.

#### ***Interfund Transactions***

Interfund transactions with discretely presented component units have been reclassified and reported as external activity.

### **Risk Financing**

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensa-

tion claims and funds the liabilities on a pay-as-you-go basis. The state's group insurance program is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. For additional information, see Note 17.

## NOTE 2 Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, depreciation is reported on all “exhaustible” assets. “Inexhaustible assets”, such as works of art and historical treasures, are not depreciated. Professional, academic, and research library books and materials are considered “exhaustible” assets and are depreciated. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows.

Capitalization of Assets		
Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	\$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats, and Aircraft	5,000	5-40 years
Other Capital Assets (Libraries, Leasehold Improvements, and Livestock)	Various	0-22 years

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges, and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB Statement No. 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities in accordance with GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

Hurricane Rita hit the coast of Texas on September 24, 2005, damaging facilities and equipment of several state agencies. The impairment of capital assets was evaluated in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. It was determined that the magnitude of the decline in service utility was not significant to the state. State and federal funds were used to clean up and restore buildings and other capital assets to their original condition.

The schedule on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions, and deletions during fiscal year 2006. The adjustment column includes assets that were not previously reported, accounting errors, and other changes. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

## Capital Asset Activity

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/05	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/06
<b>GOVERNMENTAL ACTIVITIES</b>						
<b>Non-Depreciable Assets</b>						
Land and Land Improvements	\$ 6,303,668	\$ (3,597)	\$ 1,465	\$ 498,517	\$ (921)	\$ 6,799,132
Infrastructure	37,150,355	(41,937)	1,708,752			38,817,170
Construction in Progress	3,195,073	(17,300)	(2,418,182)	3,261,198		4,020,789
Other Capital Assets	181,120	6		15	(1)	181,140
Total Non-Depreciable Assets	46,830,216	(62,828)	(707,965)	3,759,730	(922)	49,818,231
Depreciable Assets						
Buildings and Building Improvements	4,982,903	1,243	125,097	3,461	(873)	5,111,831
Infrastructure	15,116,414	4,621	572,405	1,431	(1,675)	15,693,196
Facilities and Other Improvements	187,035		6,755	228	(978)	193,040
Furniture and Equipment	1,024,719	5,396	2,537	87,147	(42,685)	1,077,114
Vehicles, Boats, and Aircraft	883,015	(179)	(156)	81,959	(51,509)	913,130
Other Capital Assets	87,630	(680)	265	3,112	(1,105)	89,222
Total Depreciable Assets at Historical Cost	22,281,716	10,401	706,903	177,338	(98,825)	23,077,533
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,325,663)	88	925	(158,618)	816	(2,482,452)
Infrastructure	(8,116,133)	(1,822)		(501,365)	36,227	(8,583,093)
Facilities and Other Improvements	(104,049)	435		(6,852)	977	(109,489)
Furniture and Equipment	(766,304)	6,035	393	(93,158)	39,510	(813,524)
Vehicles, Boats, and Aircraft	(533,264)	48	137	(57,025)	43,671	(546,433)
Other Capital Assets	(38,612)	(299)		(4,572)	722	(42,761)
Total Accumulated Depreciation*	(11,884,025)	4,485	1,455	(821,590)	121,923	(12,577,752)
Depreciable Assets, Net	10,397,691	14,886	708,358	(644,252)	23,098	10,499,781
Governmental Activities Capital Assets, Net	\$ 57,227,907	\$ (47,942)	\$ 393	\$ 3,115,478	\$ 22,176	\$ 60,318,012

\* Depreciation expense was charged to Governmental Activities as follows:

General Government	\$ 49,366
Education	5,957
Employee Benefits	1
Health and Human Services	46,645
Public Safety and Corrections	146,829
Transportation	548,318
Natural Resources and Recreation	21,599
Regulatory Services	2,875
Total Governmental Activities Depreciation Expense	<u>\$ 821,590</u>

Concluded on the following page

**Capital Asset Activity (concluded)**  
**For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)**

	Balance 9/1/05	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/06
<b>BUSINESS-TYPE ACTIVITIES</b>						
<b>Non-Depreciable Assets</b>						
Land and Land Improvements	\$ 1,036,932	\$ 159	\$ 695	\$ 110,364	\$ (2,458)	\$ 1,145,692
Construction in Progress	3,116,699	(120,793)	(1,195,974)	1,619,602	(2)	3,419,532
Other Capital Assets	306,693	1,110	95	8,008	(181)	315,725
Total Non-Depreciable Assets	<u>4,460,324</u>	<u>(119,524)</u>	<u>(1,195,184)</u>	<u>1,737,974</u>	<u>(2,641)</u>	<u>4,880,949</u>
<b>Depreciable Assets</b>						
Buildings and Building Improvements	12,415,135	(183,609)	997,105	612,283	(6,705)	13,834,209
Infrastructure	606,377	(709)	36,484	22,217		664,369
Facilities and Other Improvements	871,159	(7,775)	42,822	54,164	(65)	960,305
Furniture and Equipment	3,093,313	(36,427)	116,084	345,507	(202,047)	3,316,430
Vehicles, Boats, and Aircraft	175,425	1,059	113	15,606	(8,006)	184,197
Other Capital Assets	1,051,678	(3,658)	2,202	77,009	(1,357)	1,125,874
Total Depreciable Assets at Historical Cost	<u>18,213,087</u>	<u>(231,119)</u>	<u>1,194,810</u>	<u>1,126,786</u>	<u>(218,180)</u>	<u>20,085,384</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,677,356)	2,537		(418,418)	4,101	(6,089,136)
Infrastructure	(344,890)	(407)		(22,465)		(367,762)
Facilities and Other Improvements	(406,807)	130		(31,817)	65	(438,429)
Furniture and Equipment	(1,993,124)	(1,058)	10	(316,057)	167,195	(2,143,034)
Vehicles, Boats, and Aircraft	(126,336)	(205)	(29)	(13,912)	7,049	(133,433)
Other Capital Assets	(630,226)	(1,569)		(52,011)	3,208	(680,598)
Total Accumulated Depreciation**	<u>(9,178,739)</u>	<u>(572)</u>	<u>(19)</u>	<u>(854,680)</u>	<u>181,618</u>	<u>(9,852,392)</u>
Depreciable Assets, Net	<u>9,034,348</u>	<u>(231,691)</u>	<u>1,194,791</u>	<u>272,106</u>	<u>(36,562)</u>	<u>10,232,992</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,494,672</u>	<u>\$ (351,215)</u>	<u>\$ (393)</u>	<u>\$ 2,010,080</u>	<u>\$ (39,203)</u>	<u>\$ 15,113,941</u>
<b>COMPONENT UNITS</b>						
<b>Non-Depreciable Assets</b>						
Land and Land Improvements	\$ 3,600	\$	\$	\$	\$	\$ 3,600
Construction in Progress	1,027				(933)	94
Total Non-Depreciable Assets	<u>4,627</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(933)</u>	<u>3,694</u>
<b>Depreciable Assets</b>						
Buildings and Building Improvements	35,693					35,693
Facilities and Other Improvements	300			70		370
Furniture and Equipment	29,801			3,246	(4,373)	28,674
Vehicles, Boats, and Aircraft	23,842			2,811	(5,304)	21,349
Other Capital Assets	3					3
Total Depreciable Assets at Historical Cost	<u>89,639</u>	<u>0</u>	<u>0</u>	<u>6,127</u>	<u>(9,677)</u>	<u>86,089</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(6,845)			(868)		(7,713)
Facilities and Other Improvements	(217)			(62)		(279)
Furniture and Equipment	(15,131)	(135)		(2,800)	3,182	(14,884)
Vehicles, Boats, and Aircraft	(17,230)			(3,565)	4,674	(16,121)
Other Capital Assets	(3,599)	135		(867)	42	(4,289)
Total Accumulated Depreciation	<u>(43,022)</u>	<u>0</u>	<u>0</u>	<u>(8,162)</u>	<u>7,898</u>	<u>(43,286)</u>
Depreciable Assets, Net	<u>46,617</u>	<u>0</u>	<u>0</u>	<u>(2,035)</u>	<u>(1,779)</u>	<u>42,803</u>
Component Units Capital Assets, Net	<u>\$ 51,244</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,035)</u>	<u>\$ (2,712)</u>	<u>\$ 46,497</u>

\*\* Depreciation expense was charged to Business-Type Activities as follows:

Colleges and Universities	\$ 849,791
Veterans Land Board Loan Program Funds	3,003
Other Business-Type Activities	<u>1,886</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 854,680</u>



## NOTE 3

### Deposits, Investments, and Repurchase Agreements

#### LEGAL AND CONTRACTUAL PROVISIONS

##### Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the State Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper, and contracts written by the Comptroller which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal year 2006. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, as well as colleges and universities, are authorized to invest funds not deposited with the Treasury. Three of the four largest investing agencies; the Teacher Retirement System (TRS), the Texas Education Agency (TEA), and the Employees Retirement System (ERS) make investments following the "prudent person rule". The University of Texas System (UT) and TRS comply with the "prudent investor rule" when making investments. Authorized investments include equities, fixed income obligations, cash equivalents, and alternative investments.

##### Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the

Federal Deposit Insurance Corporation be fully collateralized by the pledging, to the Treasury, of securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all United States Treasury Obligations, most Agency Obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank, or in the vault of the Treasury. During fiscal year 2006, no depository holding state funds failed.

State agencies and institutions of higher education, with deposits of public funds that are not managed by the Treasury, are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law, however, retirement systems are exempt by statute from this requirement.

##### External Investment Pool

The state reports the Texas Government Investment Pool (TexPool) Trust Fund, as an external investment trust fund. A separate report for TexPool can be obtained from the Trust Company.

##### Deposits

As of August 31, 2006, the carrying amount of deposits for governmental and business-type activities was \$2.2 billion, for fiduciary funds was \$84 million, and for discretely presented component units was \$23 million. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents", "Securities Lending Collateral", and "Investments" accounts. As of August 31, 2006, the total bank balance for governmental and business-type activities was \$1.1 billion, for fiduciary funds was \$83 million, and for discretely presented component units was \$9 million.

**Custodial Credit Risk:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the state will not be able to recover

deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The state does not have a deposit policy for custodial credit risk. The state's securities lending program is subject to custodial credit risk. This type of risk is inherent to the securities lending programs. Bank balances were exposed to custodial credit risk as follows.

<b>Bank Balances Exposed to Custodial Credit Risk</b>		
<b>August 31, 2006 (Amounts in Thousands)</b>		
	<b>Uninsured and Uncollateralized</b>	<b>Uninsured and Collateralized with Securities Held by the Pledging Financial Institution</b>
<b>GOVERNMENTAL ACTIVITIES</b>		
Permanent School Fund	\$	\$1,198,124
Total Governmental Activities	0	1,198,124
<b>BUSINESS-TYPE ACTIVITIES</b>		
Colleges and Universities	2,555	41,756
Other Nonmajor Enterprise Funds	171	
Total Business-Type Activities	2,726	41,756
Total Governmental and Business-Type Activities	\$ 2,726	\$1,239,880
<b>FIDUCIARY</b>	\$ 17,484	\$ 45,268
<b>COMPONENT UNITS</b>	\$ 0	\$ 175

**Foreign Currency Risk:** Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. The state does not have a formal deposit policy related to foreign currency. Foreign currency deposits are intended for settlement of pending international investment trades. The exposure to foreign currency risk for bank balances at August 31, 2006, is as follows.

<b>Bank Balances Exposed to Foreign Currency Risk</b>		
<b>August 31, 2006 (Amounts in Thousands)</b>		
	<b>Governmental and Business-Type Activities</b>	<b>Pension and Other Employee Benefit Trust Funds</b>
Argentine Peso	\$	\$ 194
Australian Dollar	32	659
Brazilian Real		1
Canadian Dollar	(74) *	4,145
Danish Krone	19	17
Euro	1,562	4,837
Hong Kong Dollar	61	62
Indian Rupee		646
Japanese Yen	12	16
Malaysian Ringgit		227
New Taiwan Dollar		2,516
New Turkish Lira		3
Philippine Peso		4
Pound Sterling	1,925	498
Qatar Riyal	726	
Singapore Dollar	131	380
South African Rand	170	
South Korean Won		1
Thai Baht		3,278
Total	\$ 4,564	\$ 17,484

\* Balance is related to investment purchases and sales and to the timing of income and taxes paid on that income.



## Investments

The fair value of the state's investments is determined from published market prices, quotations from major investment brokers, or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings or are valued based on prices from fixed income pricing services or external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Cus-

todians or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees, and reserves.

Investments in money market investments are reported at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The state's investments at August 31, 2006, are as follows.

<b>Investment Fair Value</b>			
<b>August 31, 2006 (Amounts in Thousands)</b>			
	<b>Governmental and Business-Type Activities</b>	<b>Fiduciary</b>	<b>Component Units</b>
U.S. Treasury	\$ 2,818,231	\$ 4,122,247	\$ 168,792
U.S. Treasury Strips	27,963	41,476	
U.S. Treasury TIPS	1,373,641	586,883	
U.S. Government Agency	12,098,684	16,497,274	529,463
Corporate Obligations	2,143,304	10,337,940	
Corporate Asset and Mortgage Back	1,439,337	8,136,643	
Corporate Equity	15,710,926	61,361,966	
International Obligations	499,782	3,215,856	
International Equity	5,970,686	19,080,819	
International Other Commingled Funds	1,910,503	280,759	
Repurchase Agreements	10,310,046	12,225,524	108,740
Fixed Income and Bond Mutual Fund	4,073,002	298,112	5,970
Other Commingled Funds	12,959,361	4,451,735	1,898
Commercial Paper	5,648,336	2,547,844	88,004
Securities Lending Collateral Investment Pool	2,738,621	5,151,072	
Real Estate	2,417,593		
Other Investments	1,634,973	9,918,289	79,107
Total Investments	<u>\$ 83,774,989</u>	<u>\$ 158,254,439</u>	<u>\$ 981,974</u>

**Custodial Credit Risk:** Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the state will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The state does not have an investment

policy for custodial credit risk. Consistent with the state's securities lending program, underlying securities on loans are subject to custodial credit risk.

At August 31, 2006, the state's investments were exposed to custodial credit risk as follows.

<b>Investments Exposed to Custodial Credit Risk</b>		
<b>August 31, 2006 (Amounts in Thousands)</b>		
	<b>Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty</b>	<b>Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent But Not in the State's Name</b>
<b>Governmental Activities</b>		
Permanent School Fund		
Corporate Obligations	\$ 5,700	\$
Corporate Asset and Mortgage Back	20,405	
Repurchase Agreements	1,001,079	
Commercial Paper	1,349,211	
Other Investments	417,717	
Other Nonmajor Governmental Funds		
Corporate Equity		10,047
Total Governmental Activities	<u>2,794,112</u>	<u>10,047</u>
<b>Business-Type Activities</b>		
Colleges and Universities		
U.S. Treasury		2,966
U.S. Government Agency		1,288
Corporate Equity	2,153	
Other Nonmajor Enterprise Funds		
U.S. Treasury		55,043
U.S. Government Agency		4,069
Total Business-Type Activities	<u>2,153</u>	<u>63,366</u>
Total Governmental and Business-Type Activities	<u>\$2,796,265</u>	<u>\$ 73,413</u>
<b>Fiduciary</b>		
Pension and Other Employee Benefit Trust Funds		
U.S. Treasury		449,261
U.S. Government Agency		2,594
Other Fiduciary Funds		
U.S. Treasury	1,175	
Total Fiduciary	<u>\$ 1,175</u>	<u>\$ 451,855</u>
<b>Component Units</b>		
U.S. Treasury	8,021	
Repurchase Agreements	73,534	
Total Component Units	<u>\$ 81,555</u>	<u>\$ 0</u>

**Foreign Currency Risk:** Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, TEA, ERS, and UT have exposure to investment foreign currency risk. TRS does not have a formal policy related to its investments in non-U.S. dollar equity securities. TRS's investment policy states that not more than ten percent of the market value of the fixed income portfolio or four percent of the total fund, whichever is greater, may be invested in non-U.S. dollar

fixed income securities. UT does not have a formal policy related to its investments in non-U.S. dollar equity securities. UT's investment policy limits investments in non-U.S. denominated bonds to fifty percent of its total fixed income exposure. TEA and ERS do not have an investment policy for managing foreign currency risk.

The state's exposure to foreign currency risk at August 31, 2006, is as follows.

<b>Investments Exposed to Foreign Currency Risk</b>						
<b>August 31, 2006 (Amounts in Thousands)</b>						
	<b>Governmental and Business-Type Activities</b>			<b>Fiduciary</b>		
	<b>International Obligations</b>	<b>International Equity</b>	<b>International Other Commingled Funds</b>	<b>International Obligations</b>	<b>International Equity</b>	<b>International Other Commingled Funds</b>
Argentine Peso	\$	\$	\$	\$	\$ 3,478	\$
Australian Dollar	24,482	270,108	5		740,611	
Brazilian Real		3,923			179,205	
Bulgarian Lev		13				
Canadian Dollar	38,465	449,113		101,611	959,712	
Cayman Islands Dollar		44				
Chilean Peso		237			12,229	
Chinese Yuan		2,049				
Cyprus Pound		184				
Czech Koruna		565			18,491	
Danish Krone	3,029	35,950			121,054	
Egyptian Pound		17				
Euro	245,512	1,768,674	12,960	208,065	5,133,678	352,800
Hong Kong Dollar	371	130,485			487,773	
Hungarian Forint		696			10,309	
Indian Rupee		1,846			93,735	
Indonesian Rupiah		255			28,548	
Japanese Yen	34,553	1,463,234		97,881	3,586,944	
Lithuanian Litas		37				
Malaysian Ringgit	3,655	1,319			65,604	
Mexican Peso		1,621			71,562	
New Israel Shekel		377			13,303	
New Taiwan Dollar	993	5,732			279,763	
New Turkish Lira		539			16,320	
New Zealand Dollar	7,830	9,080			4,103	
Norwegian Krone	111	47,314			224,997	
Philippine Peso		335			1,871	
Polish Zloty	19,304	1,908			24,458	
Pound Sterling	33,387	1,192,667	554		3,558,619	8,192
Romanian Leu		228				
Russian Ruble		3,362				
Singapore Dollar	13,399	56,622			159,931	
South African Rand	6,209	3,966			183,663	
South Korean Won		20,848			372,517	
Swedish Krona	13,017	113,504			333,575	
Swiss Franc	169	327,234			913,146	
Thai Baht		2,375			42,828	
Total	<u>\$ 444,486</u>	<u>\$ 5,916,461</u>	<u>\$ 13,519</u>	<u>\$ 407,557</u>	<u>\$ 17,642,027</u>	<u>\$ 360,992</u>

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy states that, except for investments in board-approved high yield bond funds and certain commercial mortgage-backed security (CMBS) and asset-backed security (ABS) instruments, each security must be rated at least speculative grade (the lowest notch of the single B category) by at least one NRSRO. Except for certain CMBS and ABS instruments, unrated fixed income securities may only be purchased if those securities have investment grade characteristics and would otherwise meet the rating quality requirements defined in the investment policy, if rated. No NRSRO rating is required for fixed income investments issued, insured, guaranteed by, supported by, or based on the credit of the U.S. Government, or any U.S. Government agency, department, or government sponsored enterprise. Except for board-approved high yield fund investments, the following quality rating exposure limits apply to the fixed income portfolio: 100 percent portfolio

limit for investment grade, 10 percent portfolio limit for speculative grade, and 1 percent portfolio limit for non-rated and/or equity classes of CMBS and ABS instruments.

TEA's investment policy requires investments in fixed income securities be rated at least BBB and short term money market instruments must be rated at least A-1 by Standard & Poor's.

ERS' general investment policies require that non-cash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policies limit investments in U.S. domestic bonds and non-dollar denominated bond investments to those that are rated investment grade, BBB or better by Standard & Poor's. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

At August 31, 2006, the state's credit quality distribution for securities with credit risk exposure was as follows.

## Investments Exposed to Credit Risk

August 31, 2006 (Amounts in Thousands)

	AAA	AA	A	BBB	BB	B	CCC	D	NR
<b>GOVERNMENTAL ACTIVITIES</b>									
U.S. Government Agency	\$ 4,327,003	\$ 17,498	\$ 18,588	\$	\$	\$	\$	\$	\$ 2,257,602
Corporate Obligations	117,204	116,883	368,225	353,768	47,818	27,172	19,500		2,283
Corporate Asset and Mortgage Back	918,033								
International Obligations					1,773	1,565			
Repurchase Agreements	7,090,023		39,361						1,001,079
Other Investments	50,000	273,485	94,232						15,602
Total Governmental Activities	<u>12,502,263</u>	<u>407,866</u>	<u>520,406</u>	<u>353,768</u>	<u>49,591</u>	<u>28,737</u>	<u>19,500</u>	<u>0</u>	<u>3,276,566</u>
<b>BUSINESS-TYPE ACTIVITIES</b>									
U.S. Government Agency	3,923,580	197	8,265						144,346
Corporate Obligations	206,414	291,616	387,445	208,726	84,312	76,046	777		24,142
Corporate Asset and Mortgage Back	465,142	15,981	9,314	987		2,395			31,598
International Obligations	299,500	54,378	60,195	27,990	5,451	5,269			44,170
Repurchase Agreements	2,025,171	114,999	2,841						143,287
Other Investments	79,467	21,710	2,002	10,358					382,443
Total Business-Type Activities	<u>6,999,274</u>	<u>498,881</u>	<u>470,062</u>	<u>248,061</u>	<u>89,763</u>	<u>83,710</u>	<u>777</u>	<u>0</u>	<u>769,986</u>
<b>GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES</b>									
U.S. Government Agency	8,250,583	17,695	26,853						2,401,948
Corporate Obligations	323,618	408,499	755,670	562,494	132,130	103,218	20,277		26,425
Corporate Asset and Mortgage Back	1,383,175	15,981	9,314	987		2,395			31,598
International Obligations	299,500	54,378	60,195	27,990	7,224	6,834			44,170
Repurchase Agreements	9,115,194	114,999	42,202						1,144,366
Other Investments	129,467	295,195	96,234	10,358					398,045
Total Governmental and Business-Type Activities	<u>\$ 19,501,537</u>	<u>\$ 906,747</u>	<u>\$ 990,468</u>	<u>\$ 601,829</u>	<u>\$ 139,354</u>	<u>\$ 112,447</u>	<u>\$ 20,277</u>	<u>\$ 0</u>	<u>\$ 4,046,552</u>
<b>FIDUCIARY</b>									
U.S. Government Agency	\$ 15,717,543	\$ 19,693	\$ 29,551	\$	\$	\$	\$	\$	\$ 186,102
Corporate Obligations	519,830	2,152,906	2,607,702	2,191,713	1,081,379	1,436,030	88,404	3,489	88,284
Corporate Asset and Mortgage Back	6,422,322	6,773	1,105,499	83,719	11,348	9,097			527,805
International Obligations	1,035,094	216,164	861,901	641,178	70,203	47,264			344,052
Repurchase Agreements	10,980,169	403	460,789						150,023
Other Investments	112	1,475,695	2,854,404						31,493
Total Fiduciary	<u>\$ 34,675,070</u>	<u>\$ 3,871,634</u>	<u>\$ 7,919,846</u>	<u>\$ 2,916,610</u>	<u>\$ 1,162,930</u>	<u>\$ 1,492,391</u>	<u>\$ 88,404</u>	<u>\$ 3,489</u>	<u>\$ 1,327,759</u>
<b>COMPONENT UNITS</b>									
U.S. Government Agency	\$ 393,739	\$ 55,381	\$ 19	\$	\$	\$	\$	\$	\$ 1,494
Corporate Obligations									
Corporate Asset and Mortgage Back									
International Obligations									
Repurchase Agreements	28,748		41						
Other Investments									
Total Component Units	<u>\$ 422,487</u>	<u>\$ 55,381</u>	<u>\$ 60</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,494</u>

Concluded on the following page

## Investments Exposed to Credit Risk (concluded)

August 31, 2006 (Amounts in Thousands)

	AAAf	NR
<b>GOVERNMENTAL ACTIVITIES</b>		
Fixed Income and Bond Mutual Fund	\$ 271,916	\$ 121,094
<b>BUSINESS-TYPE ACTIVITIES</b>		
Fixed Income and Bond Mutual Fund	3,100,057	582,854
<b>GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES</b>		
Fixed Income and Bond Mutual Fund	\$ 3,371,973	\$ 703,948
<b>FIDUCIARY</b>		
Fixed Income and Bond Mutual Fund	\$ 26,174	\$ 256,484
<b>COMPONENT UNITS</b>		
Fixed Income and Bond Mutual Fund	\$ 6,245	\$ 0

	A-1	A-2	NR
<b>GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES</b>			
Commercial Paper	\$ 5,294,763	\$ 5,362	\$ 369,691
<b>FIDUCIARY</b>			
Commercial Paper	\$ 2,086,885	\$ 0	\$ 254,552
<b>COMPONENT UNITS</b>			
Commercial Paper	\$ 88,004	\$ 0	\$ 0

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the state's investment in a single issuer. At August 31, 2006, more than five percent of investments held by governmental activities were in securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), a federal government-sponsored enterprise. These holdings were the result of the governmental activities' participation in the Treasury's internal investment pool. The Treasury places no limit on the amount it may invest in any one issuer.

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TEA and TRS use the effective weighted duration method to identify and manage interest rate risk. UT and ERS use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows

serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of TEA mandates the average duration of the fixed income portfolio be consistent with the Lehman Bros. Aggregate Index's duration. The Lehman Bros. Aggregate Index duration as of August 31, 2006, was 4.7 percent. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits which is 60 days, bankers acceptances which is 45 days, and reverse repurchase agreements which is 180 days. The maximum weighted average maturity of the entire collateral portfolio must be 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60

days. Under TRS's investment policy, its portfolio will generally be structured to have an effective duration range of plus or minus two years of the Lehman U.S. Aggregate Bond Index for domestic debt securities and between 0 percent and 10 percent of the benchmark index for international debt securities. UT and ERS do not have a formal investment policy with respect to overall modified duration.

TEA's investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2006, are as follows.

<b>Investments Exposed to Interest Rate Risk</b>		
<b>August 31, 2006</b>		
<b>TEA Investment Type</b>	<b>Fair Value (in Thousands)</b>	<b>Effective Weighted Duration Rate</b>
U.S. Government and U.S. Government Agency Obligations	\$ 2,240,783	5.08
U.S. Government Mortgage Backed Obligations	666,117	4.03
U.S. Government Agency Mortgage Obligations	718,459	4.56
Asset Backed Obligations	50,228	2.94
Commercial Mortgage Back Securities	190,846	5.26
Corporate Backed Commercial Mortgage Obligations	656,553	3.43
Corporate Obligations	951,381	6.06
U.S. Treasury Inflation Index Obligation	57,674	2.42
U.S. Private Placements	62,843	1.20
Total Fixed Income	<u>\$ 5,594,884</u>	<u>4.78</u>

The following provides information about TEA's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

<b>Invested Securities Lending Collateral</b>		
<b>Exposed to Interest Rate Risk</b>		
<b>August 31, 2006 (Amounts in Thousands)</b>		
<b>TEA Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities in Less Than One Year</b>
Certificates of Deposit	\$ 917,724	\$ 917,724
Time Deposits	280,400	280,400
Commercial Paper	1,349,211	1,349,211
Asset Backed Floating Rate Notes	20,405	20,405
Bank Floating Rate Notes	367,718	367,718
Corporate Floating Rate Notes	50,000	50,000
Corporate Interest Bearing Notes	5,700	5,700
Repurchase Agreements	1,001,079	1,001,079
Total	<u>\$ 3,992,237</u>	<u>\$ 3,992,237</u>

TRS's investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2006, are as follows. The effective duration calculation assumes call dates that are likely to be used instead of actual maturity dates. Mortgage related instrument durations are calculated using generic mortgage pool models from Yield Book. The effective duration calculation excludes the High Yield Limited Partnerships, which are pooled instruments and not debt securities.

<b>Investments Exposed to Interest Rate Risk</b> <b>August 31, 2006</b>		
<b>TRS Investment Type</b>	<b>Fair Value (in Thousands)</b>	<b>Effective Weighted Duration Rate</b>
U.S. Government Obligations	\$ 2,106,523	6.96
U.S. Government Agency Obligations	10,316,500	3.87
Asset and Mortgage Backed Obligations	5,850,324	3.07
Corporate Obligations	5,255,532	5.03
International Obligations	2,793,268	7.41
Total Interest Rate Risk Debt Securities	<u>\$ 26,322,147</u>	<u>4.55</u>

ERS's investments by investment type, fair value, and the modified duration rate as of August 31, 2006, are as follows.

<b>Investments Exposed to Interest Rate Risk</b> <b>August 31, 2006</b>				
<b>ERS Investment Type</b>	<b>Fair Value (Amounts in Thousands)</b>		<b>Modified Duration</b>	
	<b>Fiduciary Fund</b>	<b>Proprietary Fund</b>	<b>Fiduciary Fund</b>	<b>Proprietary Fund</b>
U.S. Treasury Securities	\$1,503,848	\$ 212,930	5.53	1.28
U.S. Treasury TIPS	586,883		15.06	
U.S. Government Agency Obligations	2,823,106	70,515	4.41	4.23
Corporate Obligations	2,861,123	137,073	4.95	0.97
Corporate Asset and Mortgage Backed Obligations	374,255	13,336	4.41	1.61
Repurchase Agreements	150,022		0.01	
Money Market Funds	176,922	12,595	0.25	0.25
Overall Interest Rate Risk Debt Securities	<u>\$8,476,159</u>	<u>\$ 446,449</u>	<u>5.14</u>	<u>1.46</u>



UT's investments by investment type, fair value, and the modified duration rate as of August 31, 2006, are as follows.

<b>Investments Exposed to Interest Rate Risk</b>		
<b>August 31, 2006</b>		
<b>UT Investment Type</b>	<b>Fair Value (In Thousands)</b>	<b>Modified Duration</b>
<b>INVESTMENTS IN SECURITIES:</b>		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 486,032	7.20
U.S. Treasury Strips	11,636	5.07
U.S. Treasury Bills	14,636	0.04
U.S. Treasury Inflation Protected	1,372,489	7.89
U.S. Agency Asset Backed	19,970	5.69
Total U.S. Government Guaranteed	<u>1,904,763</u>	7.61
U.S. Government Non-Guaranteed:		
U.S. Agency	71,595	1.76
U.S. Agency Asset Backed	741,025	5.32
Total U.S. Government Non-Guaranteed	<u>812,620</u>	5.01
Total U.S. Government	<u>2,717,383</u>	6.83
Corporate Obligations:		
Domestic	486,416	3.62
Commercial Paper	661,138	0.07
Foreign	88,833	12.32
Total Corporate Obligations	<u>1,236,387</u>	2.35
Foreign Government and Provincial Obligations	223,933	6.85
Other Debt Securities	20,139	11.36
Total Debt Securities	<u>4,197,842</u>	5.53
Other Investment Funds – Debt	354,867	3.72
Fixed Income Money Market Funds	2,570,153	0.27
Total Investments in Securities	<u>\$ 7,122,862</u>	3.53
<b>DEPOSIT WITH BROKERS FOR DERIVATIVE CONTRACTS:</b>		
U.S. Government Guaranteed:		
U.S. Treasury Bills	\$ 147,258	0.14
U.S. Treasury Inflation Protected	1,152	0.36
Total U.S. Government Guaranteed	<u>148,410</u>	0.14
Cash	<u>65,629</u>	
Total Deposit with Brokers for Derivative Contracts	<u>\$ 214,039</u>	0.10

### Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement result-

ing in a matched position. With a matched position there is minimal market risk, because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize

the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at August 31, 2006, was \$107.0 million including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$107.2 million. The credit exposure at fiscal year end was \$149.5 thousand.

### Securities Lending

TRS, TEA, ERS, UT, the Trust Company, the Texas A&M University System (A&M), the General Land Office and Veterans Land Board (GLO/VLB), and the Texas Pre-paid Higher Education Tuition Board (TPHETB) participate in a securities lending program as authorized by state statute. Under this program, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities, or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent and A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, UT, and GLO/VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. TEA receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities, and 105 percent of the fair value plus accrued income for foreign securities. ERS receives collateral of 100 percent of the value of securities lent plus accrued interest. A&M receives collateral of 100 percent of the value of the securities lent. The Trust Company receives collateral of 102 percent of the value of U.S. securities lent plus any accrued interest and 105 percent of the value of non-U.S. government securities plus any accrued interest. TPHETB receives collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. For TRS, TEA, ERS, UT, GLO/VLB, and TPHETB, the lending agents are required to indemnify the state if the borrowers fail to return the securities. For the Trust Company and A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence, failure to live up to its contractual responsibilities, or willful misconduct.

At year end there was no credit risk exposure to the state, because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. For ERS, the relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements. For A&M, cash collateral received from the borrower is invested in a money market mutual fund with next day liquidity and repurchase agreements. TRS, the Trust Company, GLO/VLB, and TPHETB loans are terminable at will. UT manages its investments to maintain an average maturity and overnight liquidity and TEA maturities are defined by the lending agreement. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

The state's aggregate amount of securities out on loan to broker-dealers at August 31, 2006, was \$22.8 billion, of which TRS had \$10.6 billion, TEA had \$3.9 billion, ERS had \$5.6 billion, UT had \$2.0 billion, the Trust Company had \$159.8 million, A&M had \$189.1 million, GLO/VLB had \$75.4 million, and TPHETB had \$299.9 million.

### Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to or "derived" from changes in interest rates, currency rates, and stock and commodity prices. Certain state agencies and colleges and universities were parties to various derivative financial instruments including derivative contracts, options, and investments in commingled funds which are authorized to use derivatives and swaps.

At August 31, 2006, the following derivatives were held and reported at fair value on the Statement of Net Assets and the Statement of Fiduciary Net Assets.

Type	Held By
Forward Contracts	TRS, A&M, and UT
Futures Contracts	ERS, TEA, and UT
Written Options	TRS and UT
Index Funds, Hedge Funds, and Commingled Funds	UT
Swaps	UT

Forward contracts are bought or sold when an international trade has been made. The contract is in the currency native to the security transactions for settlement date. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform.

Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes.

Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile. If a call option expires, the state realizes a gain to the extent of the premium received. If a call option is exercised, the difference between the proceeds of the sale plus the amount of the premium and the fair value of the security are realized as a gain or loss. If a call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased.

Index funds, hedge funds, and commingled funds alter market exposure without trading the underlying cash market securities.

Swaps are entered into primarily to hedge and control interest rate risks.

## NOTE 4 Short-Term Debt

On August 23, 2005 (with an issue date of September 1, 2005), \$6.2 billion in the State of Texas Tax and Revenue Anticipation Notes, Series 2005, were sold to coordinate the cash flow of the state for the fiscal year ended August 31, 2006. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the General Revenue Fund. The Series 2005 were repaid during fiscal year 2006 and bore interest at 4.50 percent and were priced to yield 3.061 percent.

On August 22, 2006, the Comptroller's office sold approximately \$4.6 billion of the State of Texas Tax and Revenue Anticipation Notes, Series 2006, with an issue date of September 1, 2006, and a maturity date of August 31, 2007. The proceeds from the sale were received on August 31, 2006. The notes bear interest at 4.5 percent and were priced to yield 3.598 percent. They are not subject to redemption prior to maturity. On August 23, 2006, good faith funds in the amount of \$46.0 million were received. Short-term debt activity for the year ended August 31, 2006, is as follows.

### Short-Term Debt

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Beginning Balance 9/1/05	Issued	Redeemed	Ending Balance 8/31/06
Tax and Revenue				
Anticipation Notes	\$ 0	\$10,800,000	\$6,200,000	\$4,600,000
Commercial Paper	0	300,000	211,150	88,850
	<u>\$ 0</u>	<u>\$11,100,000</u>	<u>\$6,411,150</u>	<u>\$4,688,850</u>

During the fiscal year ended August 31, 2006, the Texas Department of Transportation issued commercial paper under its short-term borrowing program. The commercial paper proceeds are being used to cover temporary funding short falls for capital expenditures.

## NOTE 5

### Long-Term Liabilities

The long-term liabilities activity for the fiscal year ended August 31, 2006, is shown in the table below.

<b>Long-Term Liabilities Activity</b> <b>For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)</b>						
	<b>Beginning Balance 9/1/05</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 8/31/06</b>	<b>Amounts Due within One Year</b>	<b>Amounts Due Thereafter</b>
<b>GOVERNMENTAL ACTIVITIES</b>						
Claims and Judgments	\$ 221,253	\$ 44,890	\$ 58,989	\$ 207,154	\$ 72,046	\$ 135,108
Capital Lease Obligations	44,026	2,923	32,400	14,549	2,951	11,598
Employees' Compensable Leave	603,869	669,491	606,833	666,527	395,337	271,190
Notes and Loans Payable	262,099	90,200	21,500	330,799	29,160	301,639
General Obligation Bonds Payable	3,972,020	881,486	374,615	4,478,891	285,115	4,193,776
Revenue Bonds Payable	632,162	606,835	86,514	1,152,483	103,157	1,049,326
Governmental Activities Long-Term Liabilities	<u>\$ 5,735,429</u>	<u>\$ 2,295,825</u>	<u>\$ 1,180,851</u>	<u>\$ 6,850,403</u>	<u>\$ 887,766</u>	<u>\$ 5,962,637</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Claims and Judgments	\$ 45,594	\$ 183,278	\$ 22,050	\$ 206,822	\$ 97,324	\$ 109,498
Capital Lease Obligations	13,669	1,818	3,398	12,089	1,704	10,385
Employees' Compensable Leave	507,401	141,694	101,586	547,509	251,795	295,714
Notes and Loans Payable	1,614,205	642,819	515,770	1,741,254	812,434	928,820
General Obligation Bonds Payable	2,814,521	273,946	349,782	2,738,685	102,119	2,636,566
Revenue Bonds Payable	11,748,802	1,997,505	1,367,923	12,378,384	595,926	11,782,458
Liabilities Payable From Restricted Assets	3,699,572	5,827,803	5,776,176	3,751,199	717,527	3,033,672
Business-Type Activities Long-Term Liabilities	<u>\$ 20,443,764</u>	<u>\$ 9,068,863</u>	<u>\$ 8,136,685</u>	<u>\$ 21,375,942</u>	<u>\$ 2,578,829</u>	<u>\$ 18,797,113</u>
<b>COMPONENT UNITS</b>						
Capital Lease Obligations	\$ 256	\$ 288	\$ 227	\$ 317	\$ 198	\$ 119
Employees' Compensable Leave	4,291	10,799	10,516	4,574	3,236	1,338
Notes and Loans Payable	195,267	246,944	257,530	184,681	46,308	138,373
Revenue Bonds Payable	209,595	78,183	25,630	262,148	6,087	256,061
Liabilities Payable From Restricted Assets	210,566	41,140	34,567	217,139	4,208	212,931
Component Units Long-Term Liabilities	<u>\$ 619,975</u>	<u>\$ 377,354</u>	<u>\$ 328,470</u>	<u>\$ 668,859</u>	<u>\$ 60,037</u>	<u>\$ 608,822</u>

Notes and Loans Payable consists of amounts used to purchase mainframe computer equipment, software development, and construction of adult and youth corrections and mental health and mental retardation facilities. Debt service requirements for Notes and Loans Payable in the long-term liabilities are shown to the right and at the top of the following page.

General Obligation Bonds and Revenue Bonds are described in detail in Note 6.

Claims and Judgments are payments on behalf of the state, its agencies, and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are cov-

#### Notes and Loans Payable Debt Service Requirements Governmental Activities (Amounts in Thousands)

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 29,160	\$ 16,054	\$ 45,214
2008	27,072	14,572	41,644
2009	25,003	13,190	38,193
2010	20,711	11,939	32,650
2011	17,554	10,904	28,458
2012 - 2016	84,401	41,766	126,167
2017 - 2021	75,692	21,052	96,744
2022 - 2026	49,183	4,818	54,001
2027 - 2031	2,023	8	2,031
Total Requirements	<u>\$ 330,799</u>	<u>\$ 134,303</u>	<u>\$ 465,102</u>

**Notes and Loans Payable  
Debt Service Requirements  
Business-Type Activities**  
(Amounts in Thousands)

Year	Principal	Interest	Total
2007	\$ 812,434	\$ 54,710	\$ 867,144
2008	806,276	43,228	849,504
2009	4,974	4,578	9,552
2010	4,591	4,333	8,924
2011	4,722	4,106	8,828
2012 - 2016	34,979	17,201	52,180
2017 - 2021	22,670	8,783	31,453
2022 - 2026	27,850	3,606	31,456
Total Requirements	1,718,496	140,545	1,859,041
Premium	22,758		22,758
Total Requirements	<u>\$1,741,254</u>	<u>\$ 140,545</u>	<u>\$1,881,799</u>

**Notes and Loans Payable  
Debt Service Requirements  
Component Units**  
(Amounts in Thousands)

Year	Principal	Interest	Total
2007	\$ 46,308	\$ 6,594	\$ 52,902
2008	22,225	5,576	27,801
2009	25,148	4,571	29,719
2010	11,566	3,456	15,022
2011	19,185	2,955	22,140
2012 - 2016	59,412	5,123	64,535
2017 - 2021	157	335	492
2022 - 2026	680	121	801
Total Requirements	<u>\$ 184,681</u>	<u>\$ 28,731</u>	<u>\$ 213,412</u>

ered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$25,000 or numerous separate claims from the same individual or entity that in total exceed \$25,000 must be approved by the State Legislature before being paid.

Employees' Compensable Leave is the state's liability for all unused vacation and unpaid over-time accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Capital Lease Obligations are described in detail in Note 7.

Liabilities that are associated with the acquisition of restricted assets or liabilities that will be liquidated with restricted assets are classified as Liabilities Payable from Restricted Assets.

## NOTE 6 Bonded Indebtedness

### DESCRIPTION OF BOND ISSUES

The State of Texas has 438 bond issues outstanding as of August 31, 2006. During fiscal year 2006, the state paid \$424.9 million from the General Revenue Fund for debt service.

#### General Obligation Bonds - General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board, and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** (Authority) issues general obligation bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects, and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts, and earnings on temporary investments.

The **General Land Office/Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing, or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

**Constitutional Appropriation Bonds** are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University Systems. Debt service payments on bonds issued are limited to the \$87.5 million in General Revenue Funds available for debt service each year.

The **Economic Development and Tourism Office within The Office of the Governor (Office)** issues general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, and to provide loans to finance the commercialization of new and improved products and processes. Debt service payments are funded primarily from the repayment of loans and the disposition of debt instruments.

The **Texas Agricultural Finance Authority**, a public authority created within the Department of Agriculture, issues bonds to provide financial assistance for the expansion, development, and diversification of agricultural businesses. Debt service payments are funded from mortgages or other interests in financed property, repayments of financial assistance, investment earnings, any fees and charges, and appropriations, grants, subsidies, or contributions.

### General Obligation Bonds - Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 2006, the amounts of general obligation bonds

other than Constitutional Appropriation Bonds that were authorized but unissued are listed in the table below.

<b>General Obligation Bonds Authorized But Unissued (Amounts in Thousands)</b>	
<b>SELF-SUPPORTING</b>	
Texas Agricultural Finance Authority Bonds	\$ 25,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	318,372
Water Development Bonds	2,077,961
College Student Loan Bonds	250,000
Texas Military Preparedness Commission	250,000
Agricultural Water Conservation Bonds	164,840
	<u>3,561,173</u>
<b>NOT SELF-SUPPORTING</b>	
Texas Public Finance Authority Bonds	644,336
Water Development Bonds - State Participation Bonds	15,000
Water Development Bonds - Economically Distressed Areas Program	37,011
	<u>696,347</u>
Total General Obligation Bonds	<u>\$4,257,520</u>

### Revenue Bonds - General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

- Texas Military Facilities Commission Bonds;
- Texas Public Finance Authority Bonds;
- Texas Department of Criminal Justice Bonds; and
- Texas Parks and Wildlife Department Bonds.

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Texas Military Facilities Commission** issues bonds for the construction, expansion, and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Workforce Commission** was authorized to issue, in an amount not to exceed \$2.0 billion for any separate bond issue, revenue bonds to (a) repay advances



## Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Bonds Outstanding 9/1/05	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/06	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>						
General Obligation Bonds	\$ 3,972,020	\$ 881,486	\$ 252,920	\$ 121,695	\$ 4,478,891	\$ 285,115
Revenue Bonds	632,162	606,835	86,056	458	1,152,483	103,157
Governmental Activities Bond Total	<u>4,604,182</u>	<u>1,488,321</u>	<u>338,976</u>	<u>122,153</u>	<u>5,631,374</u>	<u>388,272</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
General Obligation Bonds	2,814,521	273,946	92,847	256,935	2,738,685	102,119
Revenue Bonds	11,748,802	1,997,505	747,221	620,702	12,378,384	595,926
Business-Type Activities Bond Total	<u>14,563,323</u>	<u>2,271,451</u>	<u>840,068</u>	<u>877,637</u>	<u>15,117,069</u>	<u>698,045</u>
<b>COMPONENT UNITS</b>						
Revenue Bonds	<u>209,595</u>	<u>78,183</u>	<u>25,630</u>		<u>262,148</u>	<u>6,087</u>
Total Bonds	<u>\$ 19,377,100</u>	<u>\$ 3,837,955</u>	<u>\$ 1,204,674</u>	<u>\$ 999,790</u>	<u>\$ 21,010,591</u>	<u>\$ 1,092,404</u>

from the federal unemployment insurance program, (b) pay unemployment benefits by depositing the proceeds in the unemployment compensation fund, (c) pay costs of issuance, and (d) pay capitalized interest on bonds. The bonds are payable from revenues collected through an Unemployment Insurance Obligation Tax Assessment.

The **Texas Public Finance Authority** issues bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Public Finance Authority** issued bonds to establish the Texas Workers' Compensation Insurance Fund that would operate as an insurance carrier. Due to changes in organizational structure, the fund is now a related organization and their name has changed to the Texas Mutual Insurance Company. Debt service is paid from securities on deposit in the Escrow Fund. The Escrow Fund was established to provide for the full and complete discharge of the Fund's obligation to continue collecting a maintenance tax surcharge on gross premiums of insurers providing workers compensation insurance in the state. The Authority has also issued bonds on behalf of other state agencies and universities.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments made by the Department to the Authority which are funded from state appropriations.

The **General Land Office/Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans, to make land loans to veterans, or to make home mortgage loans to veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, receipts, and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Water Pollution Control Revolving Fund commonly referred to as the State Revolving Fund. The proceeds are used to provide financial assistance to political subdivisions to construct wastewater treatment facilities. Political subdivision bonds are pledged for debt service requirements of the bonds.

## Debt Service Requirements

(Amounts in Thousands)

### GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 285,115	\$ 206,451	\$ 491,566	\$ 103,157	\$ 47,508	\$ 150,665
2008	293,545	198,222	491,767	77,550	46,816	124,366
2009	355,310	182,194	537,504	79,590	43,846	123,436
2010	300,550	165,948	466,498	82,895	40,583	123,478
2011	296,300	150,392	446,692	71,770	37,602	109,372
2012 - 2016	1,094,545	580,110	1,674,655	334,370	145,372	479,742
2017 - 2021	489,240	413,108	902,348	220,900	82,443	303,343
2022 - 2026	411,885	306,453	718,338	211,400	32,400	243,800
2027 - 2031	439,710	205,922	645,632	0	0	0
2032 - 2036	460,435	87,971	548,406	0	0	0
2037 - 2041	75,000	16,673	91,673	0	0	0
2042 - 2046	45,000	9,582	54,582	0	0	0
	4,546,635 *	2,523,026	7,069,661	1,181,632 *	476,570	1,658,202
Accretion	(67,744)		(67,744)	(29,149)		(29,149)
Total	<u>\$4,478,891</u>	<u>\$2,523,026</u>	<u>\$7,001,917</u>	<u>\$ 1,152,483</u>	<u>\$ 476,570</u>	<u>\$ 1,629,053</u>

### BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 102,119	\$ 132,502	\$ 234,621	\$ 595,926	\$ 579,417	\$ 1,175,343
2008	107,086	128,474	235,560	575,067	551,509	1,126,576
2009	113,610	124,206	237,816	494,929	525,161	1,020,090
2010	146,168	118,564	264,732	631,630	498,409	1,130,039
2011	136,774	111,858	248,632	379,529	473,532	853,061
2012 - 2016	573,900	478,009	1,051,909	2,217,509	2,061,261	4,278,770
2017 - 2021	579,530	331,639	911,169	2,381,402	1,480,825	3,862,227
2022 - 2026	430,235	196,988	627,223	1,824,886	1,014,883	2,839,769
2027 - 2031	394,015	97,034	491,049	1,565,055	699,444	2,264,499
2032 - 2036	144,375	21,078	165,453	1,597,734	427,082	2,024,816
2037 - 2041	17,165	3,511	20,676	1,028,920	227,556	1,256,476
2042 - 2046	3,265	206	3,471	354,991	22,658	377,649
	2,748,242 *	1,744,069	4,492,311	13,647,578 *	8,561,737	22,209,315
Accretion	(9,557)		(9,557)	(1,427,830)		(1,427,830)
Premium				229,992		229,992
Discount				(21,232)		(21,232)
Loss on Refunding				(50,124)		(50,124)
Total	<u>\$2,738,685</u>	<u>\$1,744,069</u>	<u>\$4,482,754</u>	<u>\$12,378,384</u>	<u>\$8,561,737</u>	<u>\$20,940,121</u>

### COMPONENT UNITS

Year	Revenue Bonds		
	Principal	Interest	Total
2007	\$ 6,087	\$ 10,098	\$ 16,185
2008	6,691	11,723	18,414
2009	7,386	11,306	18,692
2010	7,140	10,847	17,987
2011	2,056	10,401	12,457
2012 - 2016	12,202	50,260	62,462
2017 - 2021	15,787	46,602	62,389
2022 - 2026	120,637	41,092	161,729
2027 - 2031	29,582	17,609	47,191
2032 - 2036	35,360	8,279	43,639
2037 - 2041	12,727	1,200	13,927
	255,655 *	219,417	475,072
Premium	6,493		6,493
Total	<u>\$ 262,148</u>	<u>\$ 219,417</u>	<u>\$ 481,565</u>

\* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount, and/or loss on refunding.



## Miscellaneous Bond Information

(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities		First Call Date
				First Year	Last Year	
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 5,877,218	2.00	8.00	1992	2045	05/18/05
Revenue Bonds	<u>2,235,614</u>	2.50	9.00	1991	2026	02/01/01
Governmental Activities Bond Total	<u>8,112,832</u>					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	3,679,061	1.37	9.50	1995	2043	02/24/94
Revenue Bonds	<u>16,928,046</u>	1.20	15.00	1988	2046	02/01/88
Business-Type Activities Bond Total	<u>20,607,107</u>					
COMPONENT UNITS						
Revenue Bonds	<u>376,364</u>	3.50	7.10	1986	2040	10/18/86
Grand Total	\$29,096,303					

**Permanent University Fund (Fund) Bonds** are issued by the University of Texas and Texas A&M University Systems to build, equip, or buy buildings or other permanent improvements. The Texas Constitution limits each System's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at August 31, 2006, excluding real estate, was \$9.6 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

## Permanent University Fund Bonds

(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$1,920,638	\$ 932,860	\$ 987,778
Texas A&M University System	<u>960,319</u>	<u>424,681</u>	<u>535,638</u>
Totals	<u>\$2,880,957</u>	<u>\$1,357,541</u>	<u>\$1,523,416</u>

**Miscellaneous College and University Revenue Bonds** are issued to provide funds to acquire, construct, improve, enlarge, and equip property, buildings, structures, or facilities. The revenue bonds issued by each institution's

governing board are secured by the income of the respective institutions and are an obligation of the State of Texas.

The **Texas Small Business Industrial Development Corporation** (TSBIDC), a non-profit corporation, came under the management of the Office effective September 1, 2003, based on Senate Bill 275. The Office is now the oversight agency for the TSBIDC. TSBIDC's financial status is reported as a discretely presented component unit of the Office. The TSBIDC bond program is composed of revenue demand bonds secured by an amended irrevocable letter of credit (LOC) issued by Bank of America NA (Bank of America) for \$101.7 million. This instrument replaces the previous LOC issued by Kredietbank Bank. As of August 31, 2006, no principal drawings have been made on the LOC. The Office does not have a take out agreement as part of this LOC or as a separate agreement. Bondholders may tend the bonds for repurchase every seven days. Any bonds so tendered will be purchased by proceeds of the remarketing of the bonds, or if not successfully marketed from amounts drawn under the LOC.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board the majority of existing political subdivision bonds held. The

political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing, and constructing the initial phase of the Central Texas Turnpike System located in the greater City of Austin metropolitan area in Travis and Williamson Counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the Trust Estate.

### Demand Bonds

The Texas Small Business Industrial Development Corporation (TSBIDC) has issued revenue bonds, the General Land Office/Veterans Land Board (GLO) has issued 29 general obligation variable rate bonds that are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, and the Office of the Governor has issued general obligation bonds. TSBIDC bond proceeds are used to issue industrial development loans to businesses and political subdivisions. GLO bond proceeds were used to fund land and housing loans to eligible Texas veterans and to refund several bond issues. The principal balances outstanding on the GLO bonds at August 31, 2006, are \$99.3 million and \$1.0 billion, respectively.

GLO has entered into 29 secured bond issue agreements as of August 31, 2006. Details are presented in the table below.

The bondholder may tender any of these bonds for repurchase every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or if not successfully remarketed, from amounts drawn under the letter of credit, liquidity, or standby purchase agreements. As of August 31, 2006, there have been no draws on the letter of credit or any agreements. TSBIDC and GLO do not have take out agreements as part of the letter of credit, liquidity, standby purchase agreements, nor as a separate arrangement.

The Office has issued two general obligation, self-supporting demand bonds: Product Development Program General Obligation Variable Rate Demand Bonds (PDPGO) for \$25.0 million and Small Business Incubator General Obligation Variable Rate Demand Bonds (SBIGO) for \$20.0 million.

The PDPGO Demand Bonds were created for the purposes of aiding in the development and production, including the commercialization of new or improved products in the state. The loans were collateralized with the state's interest in the physical assets.

The SBIGO Demand Bonds were created for the purposes of fostering and stimulating the development of new or existing small businesses in the state. The loans were collateralized with the state's interest in the physical assets, intellectual property, and revenue-bearing license agreements financed with the loan proceeds.

The source of revenue for these demand bonds are loan repayments, which are designed to support debt service and program costs. All interest rate resets are mirrored in the interest rate provisions in the underlying loan so as to create a match in interest rate payments from the borrower with interest payments to the bondholders. Additionally, reserves in the amount of \$2.5 million for the PDPGO Demand Bond and \$2.0 million for the SBIGO Demand Bond have been set aside to provide for unforeseen cash flow mismatches.

The bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased with proceeds from loan repayments and the liquidity facility until remarketed.

<b>Demand Bond – Standby Purchase Agreements</b>			
<b>Counterparties</b>	<b>Secured Bond Issue Agreements</b>	<b>Annual Liquidity Fee</b>	<b>Agreement Termination Date</b>
Comptroller of Public Accounts	3	0.040%	08/31/07
DEPFA Bank plc	6	0.085%	07/31/07
DEPFA Bank plc	2	0.085%	05/10/09
DEPFA Bank plc	4	0.075%	05/10/09
Landesbank Hessen-Thüringen Girozentrale	4	0.100%	12/31/15
Dexia Credit Local	7	0.100%	11/16/07
State Street Bank and Trust Company	2	0.100%	02/23/08
State Street Bank and Trust Company	1	0.100%	08/08/08
Total	<u>29</u>		

## Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal year 2006 are as follows.

The source of funds used for the extinguishments included loan repayments and other available funds.

<b>Early Extinguished Debt Issues</b> (Amounts in Thousands)	
<b>GOVERNMENTAL ACTIVITIES</b>	
Revenue Bonds	
Texas Higher Education Coordinating Board	\$ 458
Governmental Activities Total	458
<b>BUSINESS-TYPE ACTIVITIES</b>	
General Obligation Bonds	
General Land Office	\$ 16,880
Texas Water Development Board	21,990
Revenue Bonds	
Texas Department of Housing and Community Affairs	103,817
Texas Water Development Board	2,265
University of Texas System	11,105
Business-Type Activities Total	156,057
Grand Total	<u>\$ 156,515</u>

## Refunding

During fiscal year 2006, 10 entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

<b>Refunding Issues</b> (Amounts in Thousands)					
	<b>Types of Refunding</b>	<b>Par Value of Refunding Issue</b>	<b>Par Value Refunded</b>	<b>Cash Flow Difference Increase (Reduction)</b>	<b>Economic Gain</b>
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds					
Texas Higher Education Coordination Board	Current Refunding	\$ 72,005	\$ 72,005	\$ 14,442	\$ 1,244
Texas Water Development Board	Advance Refunding	49,270	49,340	2,376	1,815
Governmental Activities Total		<u>121,275</u>	<u>121,345</u>	<u>16,818</u>	<u>3,059</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds					
General Land Office and Veterans Land Board	Current Refunding	192,025	192,025	23,827	9,790
Texas Water Development Board	Current Refunding	13,175	26,390	7,635	1,593
		<u>205,200</u>	<u>218,415</u>	<u>31,462</u>	<u>11,383</u>
Revenue Bonds					
Texas Department of Housing and Community Affairs	Current and Advance Refunding	81,445	101,000	29,571	20,188
Texas State University System	Advance Refunding	28,505	28,415	1,345	1,039
Texas Tech University System	Advance Refunding	127,136	125,135	7,019	3,587
Texas A&M University System	Current and Advance Refunding	40,720	41,675	2,039	1,717
University of Houston System	Advance Refunding	48,450	47,725	4,842	3,013
University of North Texas System	Advance Refunding	42,445	37,685	(2,637)	1,983
University of Texas System	Current Refunding	116,695	121,880	5,512	3,231
		<u>485,396</u>	<u>503,515</u>	<u>47,691</u>	<u>34,758</u>
Business-Type Activities Total		<u>690,596</u>	<u>721,930</u>	<u>79,153</u>	<u>46,141</u>
Grand Total		<u>\$ 811,871</u>	<u>\$ 843,275</u>	<u>\$ 95,971</u>	<u>\$ 49,200</u>

## Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Texas Treasury Safekeeping Trust Company to defease \$225.1 thousand in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. As of August 31, 2006, the following amounts of defeased bonds, at par, remained outstanding.

<b>Defeased Bonds Outstanding</b> (Amounts in Thousands)	
<b>GOVERNMENTAL ACTIVITIES</b>	
Texas Public Finance Authority	\$ 532,519
Texas National Research Laboratory Commission	49,850
Texas Water Development Board	49,690
Texas Parks and Wildlife Department	45,495
	<u>677,554</u>
<b>BUSINESS-TYPE ACTIVITIES</b>	
University of Texas System	666,289
Texas A&M University System	209,181
Texas Tech University System	173,514
Texas State University System	82,250
Texas Water Development Board	72,865
Department of Housing and Community Affairs	71,505
General Land Office and Veterans Land Board	64,700
University of Houston System	48,045
University of North Texas System	37,685
Stephen F. Austin State University	3,396
Texas Southern University	280
	<u>1,429,710</u>
Total	<u>\$2,107,264</u>

## Conduit Debt

The Texas State Affordable Housing Corporation (Corporation) is authorized to issue statewide 501 (c) (3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501 (c) (3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to non-profit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the State

of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of August 31, 2006, there were 22 series of multifamily housing revenue bonds outstanding with an aggregate \$380.0 million principal amount payable.

## DERIVATIVES

During fiscal year 2006, Veterans Land Board (the Board), Texas Department of Housing and Community Affairs (the Department), and University of Texas System (the System) have reported derivatives.

### Pay-Fixed, Receive-Variable Interest Rate Swaps (Veterans Land Board)

**Objective of the Swaps:** The Board is currently a party to 39 pay-fixed, receive-variable interest rate swaps that are associated with 43 variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the Board's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for the Board to be "knocked out" of the swaps by the respective counterparties upon the breach of a certain predetermined barrier. In each of these cases, the Board was paid an up-front option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

## Pay-Fixed Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
<b>GENERAL LAND OFFICE – VETERANS LAND BOARD</b>					
Vet Hsg Ref Bds Ser '95	\$ 64,935	11/29/1995	5.5200%	Actual Bond Rate	N/A
Vet Land Ref Bds Ser '99A	31,990	06/01/1999	5.1120%	68% of 6M LIBOR**	N/A
Vet Land Tax Ref Bds Ser '99B	26,120	12/01/1999	5.1250%	100% of 6M LIBOR	1M LIBOR >= 6.50%
Vet Land Tax Ref Bds Ser 2000	39,960	12/01/2000	6.1060%	100% of 6M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2001A-2	20,000	12/03/2001	4.3000%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	4.3650%	68% of 1M LIBOR	N/A
Vet Land Bds Ser 2002	18,980	02/21/2002	4.1400%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2002A-2	36,565	07/10/2002	3.8725%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	4.9350%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	4.9100%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2003A	45,330	03/04/2003	3.3040%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2003B	46,500	10/22/2003	3.4030%	64.5% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2003	27,335	12/01/2003	5.1230%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	5.1900%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2004A	47,145	04/07/2004	3.3130%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2004	17,600	06/01/2004	5.4500%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2004B	49,060	09/15/2004	3.6800%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2004	24,145	12/01/2004	5.4550%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	41,215	12/01/2004	5.3480%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2005A	48,840	02/24/2005	3.2790%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2005B	49,395	08/09/2005	3.0870%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2005	22,610	12/01/2005	6.5170%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	24,725	12/01/2005	5.1450%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and BMA***/LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	19,860	12/01/2005	4.9290%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and BMA/LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	7,370	12/01/2005	4.3300%	100% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2006A	50,000	06/01/2006	3.5170%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006A	31,030	06/01/2006	6.5400%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006C	22,325	06/01/2006	5.7900%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	5.8300%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006B	24,035	06/01/2006	4.6100%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2006D	50,000	09/20/2006	3.6890%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006C	41,050	12/01/2006	6.5130%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	5.4610%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and BMA/LIBOR Ratio > 74%
Vet Hsg Fund II Tax Ref Bds Ser 2007	54,160	12/01/2007	4.6580%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	12/01/2009	6.2200%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009A	65,845	12/01/2009	5.4525%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2010A	66,720	06/01/2010	5.4010%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and BMA/LIBOR Ratio > 74%
Vet Land Tax Ref Bds Ser 2010	16,480	12/01/2010	5.2090%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and BMA/LIBOR Ratio > 74%
Vet Homes Rev Ref Bds, Ser 2012	21,795	08/01/2012	3.7600%	68% of 1M LIBOR	1M LIBOR >= 7.00%
Subtotal General Land Office – Veterans Land Board	<u>1,368,530</u>				
<b>TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS</b>					
2004B Single Family	53,000	09/01/2004	3.8430%	63% of LIBOR + .30%	N/A
2004D Single Family	35,000	01/01/2005	3.6125%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
2005A Single Family	100,000	08/01/2005	3.9900%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
Subtotal Texas Department of Housing and Community Affairs	<u>188,000</u>				
<b>UNIVERSITY OF TEXAS SYSTEM</b>					
Rev Fin Sys Ref Bds Ser 2001A	27,930	08/15/2001	4.0633%	67% of 1M LIBOR	N/A
Subtotal University of Texas System	<u>27,930</u>				
Total	<u>\$ 1,584,460</u>				

\* Standard and Poor's, Moody's Investor Service, and Fitch Ratings, LTD.

\*\* London Interbank Offered Rate (LIBOR).

\*\*\* Bond Market Association Municipal Swap Index (BMA) rate.

\*\*\*\* Not rated.

Concluded on the following page

**Pay-Fixed**  
**Receive-Variable Interest Rate Swaps (concluded)**  
(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings*
<b>GENERAL LAND OFFICE – VETERANS LAND BOARD</b>						
Vet Hsg Ref Bds Ser '95	N/A	N/A	N/A	\$ (6,728)	12/01/2016	AAA/Aaa
Vet Land Ref Bds Ser '99A	N/A	N/A	N/A	(2,930)	12/01/2018	AAA/Aaa
Vet Land Tax Ref Bds Ser '99B	Optional	Permanent	740	(177)	12/01/2009	AA+/Aaa
Vet Land Tax Ref Bds Ser 2000	Optional	Permanent	2,700	(3,597)	12/01/2020	AA+/Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A	N/A	N/A	(1,519)	12/01/2029	AA-/Aa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A	N/A	N/A	(2,522)	12/01/2033	AA+/Aaa
Vet Land Bds Ser 2002	N/A	N/A	N/A	(1,112)	12/01/2032	AA-/Aa3
Vet Hsg Fund II Bds Ser 2002A-2	N/A	N/A	N/A	(923)	06/01/2033	AAA/Aaa
Vet Land Tax Ref Bds Ser 2002	Mandatory	Periodic	2,785	(453)	12/01/2021	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2002B	Mandatory	Periodic	2,165	(295)	06/01/2023	AA+/Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A	N/A	N/A	898	06/01/2034	AA-/Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A	N/A	N/A	85	06/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2003	Mandatory	Periodic	1,896	(805)	12/01/2023	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2003	Mandatory	Periodic	4,470	(1,502)	06/01/2021	AA+/Aaa
Vet Hsg Fund II Bds Ser 2004A	N/A	N/A	N/A	927	12/01/2034	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2004	Mandatory	Periodic	1,442	(1,083)	12/01/2024	AAA/Aaa
Vet Hsg Fund II Bds Ser 2004B	N/A	N/A	N/A	(530)	12/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2004	Mandatory	Periodic	2,075	(1,356)	12/01/2024	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	Mandatory	Periodic	2,594	(1,721)	06/01/2020	AA-/Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A	N/A	N/A	1,166	06/01/2035	AAA/Aaa
Vet Hsg Fund II Bds Ser 2005B	N/A	N/A	N/A	1,969	06/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2005	Mandatory	Periodic	1,542	(3,257)	12/01/2026	AAA/Aaa
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	Mandatory	Periodic	1,367	(1,699)	06/01/2026	AA-/Aa3
			567			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	Mandatory	Periodic	484	(650)	12/01/2023	AA-/Aa3
			267			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	N/A	N/A	N/A	115	12/01/2009	AA-/Aa3
Vet Hsg Fund II Bds Ser 2006A	N/A	N/A	N/A	409	12/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006A	Mandatory	Periodic	1,931	(4,496)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006C	Mandatory	Periodic	1,493	(1,908)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006B	Mandatory	Periodic	1,992	(4,179)	12/01/2026	AA-/Aa3
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	886	135	12/01/2026	AAA/Aaa
Vet Hsg Fund II Bds Ser 2006D	N/A	N/A	N/A	(406)	12/01/2036	AA+/Aa2
Vet Land Tax Ref Bds Ser 2006C	Mandatory	Periodic	2,725	(5,816)	12/01/2027	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006E	Mandatory	Periodic	2,652	(4,203)	12/01/2026	AA-/Aa3
			1,017			
Vet Hsg Fund II Tax Ref Bds Ser 2007	Mandatory	Periodic	935	(531)	06/01/2029	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2009	Mandatory	Periodic	612	(1,170)	12/01/2021	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009A	Mandatory	Periodic	2,740	(4,199)	06/01/2031	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2010A	Mandatory	Periodic	2,355	(6,622)	12/01/2031	AA-/Aa3
			1,427			
Vet Land Tax Ref Bds Ser 2010	Mandatory	Periodic	466	(1,300)	12/01/2030	AA-/Aa3
			208			
Vet Homes Rev Ref Bds, Ser 2012	Mandatory	Periodic	579	(1,039)	08/01/2035	AAA/Aaa
Subtotal General Land Office – Veterans Land Board			<u>47,112</u>	<u>(63,024)</u>		
<b>TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS</b>						
2004B Single Family	N/A	N/A	N/A	(342)	09/01/2034	AA+/Aa2/AA+
2004D Single Family	N/A	N/A	N/A	(58)	03/01/2035	NR/Aa3/AA-
2005A Single Family	N/A	N/A	N/A	(1,581)	09/01/2036	AAA/NR****/NR
Subtotal Texas Department of Housing and Community Affairs				<u>(1,981)</u>		
<b>UNIVERSITY OF TEXAS SYSTEM</b>						
Rev Fin Sys Ref Bds Ser 2001A	N/A	N/A	N/A	(1,136)	08/15/2013	60% Aa2/AA-40% Aaa/AAA
Subtotal University of Texas System				<u>(1,136)</u>		
Total			<u>\$ 47,112</u>	<u>\$ (66,141)</u>		



**Terms, Fair Values, and Credit Ratings:** The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of August 31, 2006, are shown in the table on the previous page. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

### Pay-Variable, Receive-Fixed Interest Rate Swaps (Veterans Land Board)

**Objective of the Swaps:** The Board is currently a party to one pay-variable, receive-fixed interest rate swap that is

associated with a taxable variable-rate bond issue. The swap was overlaid on an existing pay-fixed, receive-variable swap and effectively results in unhedged variable-rate bonds with an expected borrowing cost significantly below market over the life of the swap.

**Terms, Fair Values, and Credit Ratings:** The terms, fair values, and counterparty credit ratings related to the outstanding fixed-to-variable basis swaps as of August 31, 2006, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Variable Receive-Fixed Interest Rate Swaps (Amounts in Thousands)					
Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Fixed-Rate Received	Knock-out Barrier
<b>General Land Office – Veterans Land Board</b>					
Vet Land Tax Ref Bds Ser 2006B	\$ 24,035	06/01/2006	100% of 6M LIBOR	4.6100%	6M LIBOR >= 8.00%
Total	<u>\$ 24,035</u>				
Concluded below					

Pay-Variable Receive-Fixed Interest Rate Swaps (concluded) (Amounts in Thousands)						
Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings
<b>General Land Office – Veterans Land Board</b>						
Vet Land Tax Ref Bds Ser 2006B	Periodic	Periodic	\$ 674	\$ (538)	12/01/2026	AAA/Aaa
Total			<u>\$ 674</u>	<u>\$ (538)</u>		

## Pay-Variable, Receive-Variable Interest Rate Swaps (Veterans Land Board)

**Objective of the Swaps:** The Board is currently a party to five pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues, four taxable fixed-rate bond issues, and five synthetic taxable fixed-rate bond issues. Four of these swaps are London Interbank Offered Rate (LIBOR)-to- Bond Market Association rate (BMA) basis swaps and effectively convert the variable rate on the associated variable-rate bond issues from a LIBOR (taxable) based rate to a BMA (tax-exempt) based rate. The remaining swap is a LIBOR Constant Maturity Swap (CMS) basis swap that is expected to increase the cash flow on the associated taxable fixed and synthetic fixed-rate bonds due to projected changes in the relationship between short and long-term interest rates. The swaps are expected to generate an effective lower borrowing cost to the Board over the life of the swaps.

**Terms, Fair Values, and Credit Ratings:** The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of August 31, 2006, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

## Fair Value Methodology and Risk Exposure of Swap Transactions (Veterans Land Board)

**Fair Value:** The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

For swaps with embedded options, an additional calculation similar to that described above is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate

Pay-Variable Receive-Variable Interest Rate Swaps (Amounts in Thousands)							
Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Variable-Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings*
<b>GENERAL LAND OFFICE – VETERANS LAND BOARD</b>							
Vet Hsg Fund II Tax Bds Ser '97B-2	\$ 25,000	09/27/2002	132.60% of BMA	100% of 3M LIBOR	\$ 26	12/01/2010	AA-/Aa3
Vet Hsg Fund II Tax Bds Ser '99A-2	90,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(464)	09/01/2011	AAA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	60,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(293)	09/01/2011	AA+/Aaa
Vet Land Tax Bds Ser 2000A/2002A	38,445	08/05/2002	131.25% of BMA	100% of 1M LIBOR	(1,227)	12/01/2032	AA-/Aa3
Various Vet Land & Hsg Fd I/II Tax Bds	217,860	05/10/2006	3M LIBOR	10Y ISDA - 42.5 bp	(1,343)	06/01/2014	AAA/Aaa
Subtotal General Land Office – Veterans Land Board	431,305				(3,301)		
<b>University of Texas System</b>							
Rev Fin Sys Ref Bds Ser 2006B	540,570	05/10/2006	BMA	67% of 5Y LIBOR + 22.1 bp	27	08/15/2037	60% AA-/Aa2 40% AA+/Aa1
Subtotal University of Texas System	540,570				27		
Total	\$971,875				\$ (3,274)		

\* Standard and Poor's/Moody's Investor Service.



volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

**Credit Risk:** The Board mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the tables on the previous page, the credit ratings of the Board's counterparties range from AAA to AA- by Standard & Poor's (S&P) and Aaa to Aa3 by Moody's Investors Service (Moody's).

The Board also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The Board's 45 currently outstanding swaps are spread among nine different counterparties, with no more than 25 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

The Board's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by S&P or A1 by Moody's. Only U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the Board itself or by a third party custodian that is rated at least BBB+ by S&P or Baa1 by Moody's.

**Basis Risk:** The Board is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The Board mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

**Termination Risk:** The Board or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements.

The Board also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's Balance Sheet. Also, if at the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, the Board would owe the respective counterparty a termination payment equal to the swap's fair value.

**Rollover Risk:** The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions at any time on or after April 29, 2002. If either of these swaps is terminated through the counterparty's exercise of its option, the associated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's Balance Sheet.

Bonds that are exposed to such rollover risk are shown in the table below.

Interest Rate Swaps Subject to Rollover			
Associated Bond Issue	Maturity Date of Bonds	Option Exercise Date	Swap Termination Date
<b>GENERAL LAND OFFICE</b>			
Vet Land Tax Ref Bds Ser '99B	12/1/09	4/29/02	12/1/09
Vet Land Tax Ref Bds Ser 2000	12/1/20	4/29/02	12/1/20
<b>TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS</b>			
2004 Single Family Series B	9/1/34	3/1/14	9/1/34
2004 Single Family Series D	3/1/35	9/1/14	3/1/35
2005 Single Family Series A	9/1/36	Anytime with 10 day notice	9/1/36

### Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ 41,850	\$ 47,969	\$ 4,695	\$ 94,514
2008	40,870	46,284	4,563	91,717
2009	43,615	44,613	4,422	92,650
2010	46,720	42,829	4,275	93,824
2011	37,520	41,079	4,096	82,695
2012 - 2016	235,475	180,502	17,149	433,126
2017 - 2021	304,305	119,595	11,652	435,552
2022 - 2026	225,040	60,595	8,625	294,260
2027 - 2031	138,390	25,632	4,821	168,843
2032 - 2036	95,715	5,916	1,494	103,125
2037 - 2041	2,835	106	64	3,005
Total	<u>\$ 1,212,335</u>	<u>\$ 615,120</u>	<u>\$ 65,856</u>	<u>\$ 1,893,311</u>

### Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ 620	\$ 11,250	\$ (813)	\$ 11,057
2008	660	11,216	(807)	11,069
2009	700	11,180	(802)	11,078
2010	745	11,142	(795)	11,092
2011	790	11,101	(680)	11,211
2012 - 2016	4,765	54,800	507	60,072
2017 - 2021	6,430	53,328	(1,133)	58,625
2022 - 2026	22,005	49,832	(812)	71,025
2027 - 2031	173,480	31,393	(378)	204,495
2032 - 2036	2,665	143	(23)	2,785
Total	<u>\$ 212,860</u>	<u>\$ 245,385</u>	<u>\$ (5,736)</u>	<u>\$ 452,509</u>

resulting actual interest payments and net swap payments.

### Pay-Fixed, Receive-Variable Interest Rate Swaps (Texas Department of Housing and Community Affairs)

**Objective of the Swaps:** The Department is a party to three pay-fixed, receive-variable interest rate swap agreements with three rated counterparties, UBS AG, Goldman Sachs Capital Markets, L.P. (Goldman), and Bear Stearns Financial Products, Inc. The objective of the swaps is to reduce interest rate risk of certain variable rate demand bonds. Under the terms of the agreements, the Department makes periodic fixed interest rate payments in exchange for receiving variable rate payments comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. The Department is potentially exposed to loss in the event of nonperformance by the counterparties under the swap agreements. Termination of the swap agreements may result in the Depart-

**Swap Payments and Associated Debt:** Using rates as of August 31, 2006, the estimated debt service requirements of the Board's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the above tables: "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments" and "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments". As rates and index relationships vary in the future, so will the

ment making or receiving termination payments. Each swap agreement includes optional early termination provisions granting the Department the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

**Terms, Fair Values, and Credit Ratings:** The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of August 31, 2006, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps". The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

**Credit Risk:** As of August 31, 2006, the Department is not exposed to credit risk on any of its outstanding swaps. The Department has entered into these transactions with highly-rated counterparties to mitigate credit risk. The swap portfolio is spread among three counterparties and collateral agreements and insurance policy requirements contained in the swap agreements further mitigate credit risk.

**Basis Risk:** The Department's variable-rate bond coupon payments are equivalent to the BMA rate. Payments received on these swaps are a function of LIBOR. As these rates converge, basis risk exposure increases.

**Rollover Risk:** The Department is exposed to rollover risk on swap agreements which mature or may be terminated prior to the maturity of the associated debt. Bonds that are exposed to rollover risk are shown in table "Interest Rate Swaps Subject to Rollover".

**Swap Payments and Associated Debt:** Using rates as of August 31, 2006, the estimated debt service requirements of the Department's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments". As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

### **Pay-Fixed, Receive-Variable Interest Rate Swaps (University of Texas System)**

**Objective of the interest rate swap:** In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements with J.P. Morgan Chase Bank (Morgan) and Goldman. The swap agreements were used to create a synthetic fixed-rate refunding of \$80.5 million of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds"), on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the U.T. System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The swap agreements effectively change the U.T. System Board of

Regent's interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in estimated present value debt service savings of approximately \$5.6 million.

**Terms, Fair Values, and Credit Ratings:** The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of August 31, 2006, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps". The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

**Basis and Termination Risk:** The swap agreements expose the U.T. System Board of Regents to basis risk as the variable rate received under the swap agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each swap agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P. The swap agreements may also be terminated by Morgan or Goldman, respectively, if the U.T. System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

**Swap Payments and Associated Debt:** Using rates as of August 31, 2006, the estimated debt service requirements of the System's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown on the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments. As of August 31, 2006, there was \$28.4 million of the Series 2001A Bonds outstanding and the notional amount of the swap agreements was \$27.9 million.

## Pay-Variable, Receive-Variable Interest Rate Swaps (University of Texas System)

**Objective of the Swaps:** In May 2006, the System executed basis swap agreements with Merrill Lynch Capital Services (Merrill Lynch) and Bank of America. The swap agreements are associated with the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 2006B (Series 2006B Bonds) to lower the net cost of borrowing.

**Terms, Fair Values, and Credit Ratings:** The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of August 31, 2006, are shown in the table titled “Pay-Variable, Receive-Variable Interest Rate Swaps”. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

**Basis and Termination Risk:** The basis swaps expose the U.T. System Board of Regents to basis risk as the variable rate received does not perfectly match the variable rate paid on the basis swaps. Each basis swap may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody’s or BBB by S&P. The basis swaps may also be terminated by Merrill Lynch or Bank of America, respectively, if the U.T. System Board of Regents Revenue Financing System obligations do not maintain a credit rating of at least Baa2 by Moody’s or BBB by S&P.

**Swap Payments and Associated Debt:** Using rates as of August 31, 2006, the estimated debt service requirements of the System’s fixed-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the table “Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments”. As rates and index relationships vary in the future, so will the resulting actual net swap payments.

### Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed- Rate Debt Outstanding and Net Swap Payments (Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ 6,465	\$ 26,774	\$ (1,674)	\$ 31,565
2008	11,035	26,451	(1,654)	35,832
2009	13,735	26,010	(1,620)	38,125
2010	14,390	25,353	(1,578)	38,165
2011	15,095	24,633	(1,533)	38,195
2012 - 2016	87,440	111,215	(6,915)	191,740
2017 - 2021	111,205	87,463	(5,421)	193,247
2022 - 2026	141,945	56,740	(3,518)	195,167
2027 - 2031	66,190	27,129	(1,680)	91,639
2032 - 2036	64,495	12,115	(750)	75,860
2037 - 2041	8,575	429	(27)	8,977
Total	<u>\$ 540,570</u>	<u>\$ 424,312</u>	<u>\$ (26,370)</u>	<u>\$ 938,512</u>

## NOTE 7 Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the Government-wide Financial Statements.

The table below is a summary of the future minimum lease payments for capital leases.

<b>Future Capital Lease Payments</b>									
<b>For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)</b>									
<b>Year</b>	<b>Primary Government</b>						<b>Discretely Presented Component Units</b>		
	<b>Governmental Activities</b>			<b>Business-Type Activities</b>					
	<b>Principal</b>	<b>Interest</b>	<b>Total Future Minimum Lease Payments</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Future Minimum Lease Payments</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Future Minimum Lease Payments</b>
2007	\$ 2,951	\$ 860	\$ 3,811	\$ 1,704	\$ 535	\$ 2,239	\$ 198	\$ 13	\$ 211
2008	2,194	710	2,904	1,689	433	2,122	98	3	101
2009	1,643	587	2,230	1,396	359	1,755	21	1	22
2010	1,458	489	1,947	1,174	302	1,476			
2011	1,548	390	1,938	927	253	1,180			
2012 - 2016	4,755	469	5,224	2,338	875	3,213			
2017 - 2021				1,805	373	2,178			
2022 - 2026				899	111	1,010			
2027 - 2031				157	7	164			
Totals	<u>\$ 14,549</u>	<u>\$ 3,505</u>	<u>\$ 18,054</u>	<u>\$ 12,089</u>	<u>\$ 3,248</u>	<u>\$ 15,337</u>	<u>\$ 317</u>	<u>\$ 17</u>	<u>\$ 334</u>

The following table is an analysis of the property acquired under capital leases by asset category at August 31, 2006.

<b>Assets Under Capital Leases</b>						
<b>(Amounts in Thousands)</b>						
<b>Type</b>	<b>Primary Government</b>				<b>Discretely Presented Component Units</b>	
	<b>Governmental Activities</b>		<b>Business - Type Activities</b>			
	<b>Assets under Capital Lease</b>	<b>Accumulated Depreciation</b>	<b>Assets under Capital Lease</b>	<b>Accumulated Depreciation</b>	<b>Assets under Capital Lease</b>	<b>Accumulated Depreciation</b>
Land	\$	\$	\$ 456	\$	\$	\$
Buildings	18,084	9,412	10,145	1,199		
Furniture and Equipment	9,814	5,738	8,869	2,079	555	253
Vehicles, Boats, etc.	123	25	375	119		
Totals	<u>\$ 28,021</u>	<u>\$ 15,175</u>	<u>\$ 19,845</u>	<u>\$ 3,397</u>	<u>\$ 555</u>	<u>\$ 253</u>

## NOTE 8 Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on non-cancelable operating leases as of August 31, 2006.

<b>Noncancelable Operating Leases</b> (Amounts in Thousands)		
<b>Minimum Future Rentals As of August 31, 2006</b>	<b>Minimum Future Lease Payments</b>	
	<b>Primary Government</b>	<b>Component Units</b>
2007	\$ 181,794	\$ 1,664
2008	144,742	1,042
2009	116,276	878
2010	98,296	755
2011	75,926	689
2012 - 2016	101,569	1,862
2017 - 2021	4,614	525
2022 - 2026	3,403	
2027 - 2031	2,542	
Total	<u>\$ 729,162</u>	<u>\$ 7,415</u>

## NOTE 9 Retirement Systems

The State of Texas has three public employee retirement systems (PERS) that administer seven defined benefit plans and one defined contribution plan. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three agencies that administer the plans; the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS), and the Fire Fighters' Pension Commission (FPC); issue separate financial reports. These reports are audited as individual entities with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas  
P.O. Box 13207  
Austin, Texas 78711-3207

Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701-2698

Fire Fighters' Pension Commission  
920 Colorado Street, 11th Floor  
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Tex. Gov. Code, Chapter 830, an optional retirement program for agencies and institutions of higher education. Participation in the optional retirement program provides for the purchase of annuity contracts from any insurance or annuity company that is qualified to do business in Texas. With the purchase of these individual annuity contracts, the state has effectively transferred the obligation for the payment of benefits to the company. In the event of the insurance or annuity company's insolvency, the state does not guarantee benefits. The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent for the participant and 6.0 percent for the state. In addition, the Texas Higher Education Coordinating Board and institutions of higher education contributed 2.5 percent from operating funds for this retirement program. For the year ended August 31, 2006, the state's expense/contribution was \$72.6 million.

GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the State of Texas since the health care plans are not administered by the pension trust funds.

## DESCRIPTION OF PLANS AND FUNDING POLICY

### Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of the Employees Retirement System of Texas Plan, the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), and the Judicial Retirement System of Texas Plan One and Plan Two (JRS). Each of these plans is considered to be a single-employer defined benefit pension plan.



Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class, and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS Plan Two under which state contribution rates are actuarially determined every even-numbered year for the next biennium.

The Employees Retirement System of Texas's audited report contains the actuarial valuations as of August 31, 2006, along with an actuarial letter dated December 6, 2006. No subsequent legislative action that would negatively affect their certification of actuarial soundness of the funds was noted.

### **Employees Retirement System of Texas Plan**

The Employees Retirement System of Texas Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, covers elected class members, employee class members, commissioned peace officers, and custodial officers. The funding policy requires monthly contributions by both the state and employees (see Funding Information, Actuarial Methods, and Assumptions Table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of credited service and may retire at age 50 with 12 years of service or at age 60 with eight years of service. The statutory percentage is equal to 2.3 percent of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and the Judicial Retirement System. Employee class retirement benefits vest after five years of credited service and employees may retire at age 60 with five years of service or at any age when the combination

of age and service (including months) total 80. The monthly standard annuity equals the statutory percentage of 2.3 percent times the average of the highest 36 months of compensation. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

- Commissioned peace officers and custodial officers may retire at age 55 with 10 years or at age 50 with 20 years of service.

### **Law Enforcement and Custodial Officer Supplemental Retirement Plan**

The Law Enforcement and Custodial Officer Supplemental Retirement Plan, established under Tex. Gov. Code, sec. 814.107, covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits upon completing 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The monthly annuity is equal to 2.8 percent of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

For the bienniums ending August 31, 2005 and August 31, 2007, the state has not and will not be required to contribute to this fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement.

## **Judicial Retirement System of Texas**

### **Plans One and Two**

The Judicial Retirement System of Texas Plans One and Two cover judges, justices, and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts, and certain commissions to a court. Members prior to September 1, 1985, participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of Plan One and Plan Two may retire at any age with 20 years of service. Prior to September 1, 2005, members of Plan Two were restricted to retirement at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with 12 years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50.0 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D requires employees to contribute 6 percent of their compensation and the state to make appropriations from the General Revenue Fund sufficient to administer the Judicial Retirement System Plan One. The contribution requirements are not actuarially determined since it is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requirements.

The funding policy of the Judicial Retirement System Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assump-

tions are the same as those used to compute the net pension benefit.

## **Teacher Retirement System of Texas**

The Teacher Retirement System of Texas is a multiple-employer PERS. It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employer (unless the employer is a senior college, medical school, or a state agency in which case the employer is considered the State of Texas), but are the liability of the State of Texas. The plan is reported under the sole-employer provisions of GASB Statement No. 27, since the State of Texas is legally responsible for a significant portion of the annual required contributions. The Teacher Retirement System of Texas administers retirement, proportional retirement, disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. The benefit and contribution provisions of this plan are authorized by state law and may be amended by the Texas Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, are covered by the system.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of credited service, or when the sum of the member's age and years of credited service equals or exceeds 80 years. The service age requirement for early retirement is age 55 with five years of credited service or any age below 50 with 30 years of credited service. The standard life annuity benefit formula is 2.3 percent of the average of the three highest annual salaries multiplied by the years of service. At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

As of September 1, 2005, several law changes went into effect for all members except those exempted under the following categories: (1) those who are 50 years of age; (2) those whose age and service credit equal 70 or more;



and (3) those who have 25 or more years of service. The main changes are using five years rather than three years to determine the final average salary, eliminating subsidies for early retirements, and requiring age plus years of creditable service equal to 90 or greater for a partial lump sum option. Various changes affecting service credit will also go into effect.

At August 31, 2006, the number of participating employing districts was as follows.

<b>Employing Districts</b>	
Public Schools, Service Centers, and Charter Schools	1,254
Colleges, Universities, and Medical Schools	102
Educational State Agencies	3
Total	<u>1,359</u>

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy.

The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent of the aggregate annual compensation of all members of the System during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or if

the amortization period already exceeds 31 years, the period would be increased by such action.

The Teacher Retirement System offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75, and 50 percent joint and survivor annuities, and five- and 10-year guaranteed period annuities.

The Teacher Retirement System also offers two other annuity payment options:

- **The Deferred Retirement Option Plan (DROP)**  
DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan was closed for new participants effective December 31, 2005.
- **A Partial Lump-Sum Cash Option (PLSO)**  
PLSO reduces the standard monthly annuity. Prior to September 1, 2005, members could select a partial lump sum distribution equal to 12, 24, or 36 months of a standard monthly annuity. After September 1, 2005, PLSO eligibility for the program must meet the Rule of 90 as described above. This option is not available to those in DROP at the time of retirement, to those taking an early-reduced annuity, or to existing retirees (including disability retirees).

## Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for plans subject to sole-employer provisions of GASB Statement No. 27 for fiscal year 2006 are presented below.

### Fire Fighters' Pension Commission

The Fire Fighters' Pension Commission is the administrator of two pension plans:

- The Texas Emergency Services Retirement System (TESRS) Fund; and
- The Texas Local Fire Fighters Retirement Act (TLFFRA).

TESRS is a cost-sharing multiple-employer pension plan established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without pay. At August 31, 2006, there were 181 member fire departments participating in the pension system.

The funding policy, according to Tex. Gov. Code, Title 8, sec. 865.014, was amended by board rule effective September 1, 2005. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each

## Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS*	FPC**
Annual Required Contribution, ARC	\$ 362,753	\$	\$ 27,299	\$ 10,075	\$1,596,302	\$ 2,753
Interest on Net Pension Obligation, NPO	(6,615)		6,895	(592)	(14,751)	N/A
Adjustment to ARC	4,086		(6,955)	455	11,796	N/A
Annual Pension Cost	<u>360,224</u>	<u>0</u>	<u>27,239</u>	<u>9,938</u>	<u>1,593,347</u>	<u>2,753</u>
Employer Contributions Made	<u>316,198</u>	<u>0</u>	<u>27,664</u>	<u>10,052</u>	<u>1,332,101</u>	<u>2,753</u>
Increase (Decrease) in NPO	<u>44,026</u>	<u>0</u>	<u>(425)</u>	<u>(114)</u>	<u>261,246</u>	<u>N/A</u>
Net Pension Obligation, September 1, 2005	<u>(82,692)</u>	<u>0</u>	<u>86,182</u>	<u>(7,395)</u>	<u>(184,387)</u>	<u>N/A</u>
Net Pension Obligation/(Asset), August 31, 2006***	<u>\$ (38,666)</u>	<u>\$ 0</u>	<u>\$ 85,757</u>	<u>\$ (7,509)</u>	<u>\$ 76,859</u>	<u>N/A</u>

\* The sole-employer provisions of GASB Statement No. 27 applies to TRS.

\*\* An NPO calculation is not applicable for the FPC since contributions are received from member fire departments. The state's contribution, if any, would be insignificant. The ARC and Employer Contributions Made are from the 2006 actuarial.

\*\*\* See "Funding Information, Actuarial Methods, and Assumptions" table for actuarial assumptions used in determining cost and obligation.

## Retirement Systems' Membership

	ERS*	LECOS*	JRS1*	JRS2*	TRS**	FPC***
Retirees and Beneficiaries Currently Receiving Benefits	67,596	5,318	486	89	257,144	1,766
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	61,567	33	12	95	48,324	1,815
Current Employees: Vested and Non-Vested	<u>132,411</u>	<u>37,103</u>	<u>43</u>	<u>498</u>	<u>874,369</u>	<u>4,480</u>
Total Members	<u>261,574</u>	<u>42,454</u>	<u>541</u>	<u>682</u>	<u>1,179,837</u>	<u>8,061</u>

\* Totals are from actuarial valuations as of August 31, 2006.

\*\* Totals are from the audited agency annual financial report.

\*\*\* This total does not include the 609 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of August 31, 2006.

## Funding Information, Actuarial Methods, and Assumptions

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS	FPC*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	N/A
Legislators	8.0%	N/A	N/A	N/A	N/A	N/A
Employer**	6.5%	0.0%	N/A	16.8%	6.0%	N/A
Annual Pension Cost	\$360,224	\$0	\$27,239	\$9,938	\$1,593,347	\$2,753
Employer Contributions Made***	\$316,198	\$0	\$27,664	\$10,052	\$1,332,101	\$2,753
Actuarial Valuation Date	August 31, 2006	August 31, 2006	August 31, 2006	August 31, 2006	August 31, 2006	August 31, 2006
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age Normal	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Open
Remaining Amortization Period of Unfunded Liability	30 years	1 year****	30 years	11 years****	30 years	30 years
Asset Valuation Method	5-year Smoothed Fair Value	5-year Smoothed Fair Value	N/A	5-year Smoothed Fair Value	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-14.0%	6.0%-14.0%	4.0%	4.0%	4.25%-26.4%	N/A
Includes Inflation at	4.0%	4.0%	4.0%	4.0%	3.0%	3.8%
Cost-of-Living Adjustments	None-Employee 4.0%-Elected	None	4.0%	None	None	None

\* Contributions and benefits are not based on the salaries of members.

\*\* The plan for JRS1 is closed to new participants and the State contributions are based upon benefits paid to participants during the year. Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

\*\*\* The 79th Legislature addressed funding problems for FPC with an appropriation for additional funding in the 2006-2007 biennium.

\*\*\*\* The amortization period was calculated based on estimated fiscal year 2007 covered payroll. At the end of fiscal year 2007 the ARC and the amortization period will be recalculated based on actual 2007 covered payroll.

active member and may contribute more than the minimum prescribed amount. Additional contributions by the member fire departments may be necessary to pay for unfunded prior service costs and “buy backs” of vested benefits required by the state. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. Because the state’s contribution is not significant, the state is not considered an employer; therefore the sole-employer reporting provisions of GASB Statement No. 27 for net pension obligation calculations are not applicable.

Eligible members include volunteer emergency service personnel who are members in good standing of a qualifying fire-fighting unit. Members are vested, beginning with the fifth year of service, at 5.0 percent per year of service for the first 10 years and 10.0 percent for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times his governing body’s average contribution over his years of service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7.0 percent compounded annually.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending August 31, 2006, 2005, and 2004 were \$2.1 million, \$1.5 million, and \$1.9 million, respectively, equal to the yearly statutorily required contributions.

TLFFRA, established by statute, is an agent multiple-employer plan. Actuarial valuations are not obtained for plans

which are pay-as-you-go and, therefore, are not presented on the Schedule of Funding Progress. It is not cost beneficial to obtain valuations, and the TLFFRA assets are less than 1 percent of the TESRS and TLFFRA plans combined.

Upon election, a department under TLFFRA can merge with the TESRS plan. At August 31, 2006, there were 112 plans merged into the TESRS plan. Benefit determinations for these plans are determined by each local governing board. Members under both plans are eligible for retirement service at age 55 with five years of service credited in the retirement system. Monthly benefits payable for service retirement is six times the average contribution rate

<b>Schedule of Funding Progress</b> (Amounts in Thousands)						
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Excess of Assets over AAL (Unfunded AAL) (a) - (b)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>Excess/UAAAL as a Percentage of Covered Payroll ((a-b)/c)</b>
<b>Employees Retirement System (ERS)</b>						
8/31/06	\$21,780,437	\$ 22,884,917	\$ (1,104,480)	95.2%	\$ 5,051,330	(21.9)%
8/31/05	20,835,469	21,969,670	(1,134,201)	94.8%	4,842,525	(23.4)%
8/31/04	20,036,647	20,591,848	(555,201)	97.3%	4,616,761	(12.0)%
<b>Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)</b>						
8/31/06	\$ 720,307	\$ 708,437	\$ 11,870	101.7%	\$ 1,279,463	0.9%
8/31/05	698,814	677,953	20,861	103.1%	1,283,815	1.6%
8/31/04	679,243	621,457	57,786	109.3%	1,230,581	4.7%
<b>Judicial Retirement System Plan One (JRS1)</b>						
8/31/06	\$ 0	\$ 325,977	\$ (325,977)	0.0%	\$ 5,138	(6,344.4)%
8/31/05	0	327,145	(327,145)	0.0%	5,284	(6,191.2)%
8/31/04	0	263,068	(263,068)	0.0%	4,921	(5,345.8)%
<b>Judicial Retirement System Plan Two (JRS2)</b>						
8/31/06	\$ 186,400	\$ 198,840	\$ (12,440)	93.7%	\$ 62,306	(20.0)%
8/31/05	164,231	182,311	(18,080)	90.1%	60,775	(29.7)%
8/31/04	145,538	123,913	21,625	117.5%	48,504	44.6%
<b>Teacher Retirement System of Texas (TRS)</b>						
8/31/06	\$94,217,922	\$107,911,459	\$(13,693,537)	87.3%	\$28,397,283	(48.2)%
8/31/05	89,298,813	102,494,536	(13,195,723)	87.1%	25,956,807	(50.8)%
8/31/04	88,783,871	96,736,525	(7,952,654)	91.8%	25,484,585	(31.2)%
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Excess of Assets over AAL (Unfunded AAL) (a) - (b)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Total Members Covered (not rounded)</b>	<b>Excess/UAAAL Per Member Covered (not rounded)</b>
<b>Texas Emergency Services Retirement System (TESRS)</b>						
8/31/06*	\$ 42,268	\$ 58,083	\$ (15,815)	72.8%	8,061	1,962
8/31/04	38,141	51,567	(13,426)	74.0%	7,994	1,680
8/31/02*	32,797	45,976	(13,179)	71.3%	7,669	1,718

\* Actuarial assumptions and methodology were changed for the August 31, 2002 and the August 31, 2006 valuation.

per member. Authority for contributions is established by statute. Members vested under the TLFFRA plan will be paid by the Commission with funds received from the local governing bodies on a pay-as-you-go basis. The liabilities of the TLFFRA pension plan are always equal to the assets and, therefore, there is no fund balance.

Contributions are not actuarially determined and the state has no legal obligation for benefit payments. As of August 31, 2006, membership consisted of 609 retirees and beneficiaries.

### Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas, and the Fire Fighters' Pension Commission are:

- (1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.
- (2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions of the employer (ARC) and the contributions made by the employers in relation to the ARC.

The table on the previous page presents the funding progress for the three most recent actuarial valuations of each plan. The table below presents the three-year trend information regarding annual pension cost and net pension obligation of the plans. The TLFFRA plan which is not funded in advance is not included in the funding progress or the three-year trend information tables.

<b>Three-Year Trend Information</b> (Amounts in Thousands)			
<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
<b>Employees Retirement System (ERS)</b>			
8/31/06	\$ 360,224	87.8%	\$ (38,666)
8/31/05	318,045	86.8%	(82,692)
8/31/04	307,591	90.7%	(124,702)
<b>Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)</b>			
8/31/06	\$ 0	0.0%	\$ 0
8/31/05	0	0.0%	0
8/31/04	0	0.0%	0
<b>Judicial Retirement System Plan One (JRS1)</b>			
8/31/06	\$ 27,239	101.6%	\$ 85,757
8/31/05	22,061	101.1%	86,182
8/31/04	21,802	103.8%	86,418
<b>Judicial Retirement System Plan Two (JRS2)</b>			
8/31/06	\$ 9,938	101.1%	\$ (7,509)
8/31/05	5,582	149.9%	(7,395)
8/31/04	5,724	143.3%	(4,613)
<b>Teacher Retirement System of Texas (TRS)*</b>			
8/31/06	\$1,593,347	83.6%	\$ 76,859
8/31/05	1,525,025	82.5%	(184,387)
8/31/04	1,517,808	81.0%	(451,740)
<b>Texas Emergency Services Retirement System (TESRS)**</b>			
8/31/06 ***	\$ 2,753	100.0%	N/A
8/31/04	2,897	65.0%	N/A
8/31/02 ***	1,768	100.0%	N/A
<p>* Actuary numbers for fiscal year 2004 were restated based on a 30-year amortization.</p> <p>** TESRS is not subject to NPO calculation since the state's contributions are insignificant.</p> <p>*** Actuarial assumptions and methodology were changed for the August 31, 2002 valuation and the August 31, 2006 valuation.</p>			

## NOTE 10

### Deferred Compensation

The state's deferred compensation plan complies with the Internal Revenue Code Section 457 and is accounted for according to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement establishes accounting and financial reporting standards for Internal Revenue Code Section 457 relating to deferred compensation plans of state and local governments.

The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, all property and rights purchased with those amounts, and all income attributed to those amounts, property, or rights are held in trust by the Board of Trustees for the exclusive benefit of participants and their beneficiaries and may not be used for, or diverted to, any other expense except to defray the reasonable expenses of administering the plan. The state has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

The deferred compensation plan balances are recorded in pension trust funds at fair value. The estimated fair value of the aggregate deferred compensation plan assets was \$312.0 million as of August 31, 2006.

The state also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the state nor does the state have a liability related to this plan.

## NOTE 11

### Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state administers four programs which provide health care and life insurance benefits for retired employees, their spouses, and

beneficiaries. Benefits are authorized by statute and contributions are determined by the General Appropriations Act.

The Employees Retirement System (ERS) administers the program for state retirees with at least 10 years of state service under the retirement programs of ERS or the Teacher Retirement System (TRS). Retirees who elected to participate in the Optional Retirement Program are eligible for these benefits, providing that contributions have not been withdrawn.

Public school district retirees that are members of TRS are also eligible for the health care benefits.

The University of Texas System and the Texas A&M University System provide separate post-employment health care and life insurance coverages to their retirees, surviving spouses, and beneficiaries. Substantially all of the employees under the university systems that reach normal retirement age while working for the state may become eligible for the health and life insurance benefits.

For the year ended August 31, 2006, the state made monthly contributions for health care and life insurance. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

#### State Contribution Rates – Retiree Health and Basic Life Premium For the Fiscal Year Ended August 31, 2006

Level of Coverage	TRS	ERS	Texas A&M University	University of Texas*
Retiree Only	\$ 343	\$ 343	\$ 342	\$ 330
Retiree/Spouse	\$ 540	\$ 540	\$ 484	\$ 503
Retiree/Children	\$ 475	\$ 475	\$ 430	\$ 441
Retiree/Family	\$ 671	\$ 671	\$ 555	\$ 615

\* The amounts shown for the University of Texas represent self-funded insurance. The monthly contribution per full-time retirees participating in the fully insured programs (HMO's) ranged from \$322 to \$679 depending upon the region and the level of coverage selected.

TRS administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care) provides a free basic level of coverage for eligible retirees and optional coverage for eli-

gible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A of Medicare. The deductible is \$1,800 for those enrolled, \$3,000 for those eligible but not enrolled, and \$4,000 for those not eligible. Funding for free basic coverage is provided based on public school district payroll. The State of Texas and active school employee contribution rates are 1.0 percent and .65 percent of school district payroll, respectively.

The cost of state retirees' health care and life insurance benefits and TRS-Care is financed on a pay-as-you-go-basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Expenditures recognized for fiscal year 2006 for retiree health and life insurance benefits paid for by the state are shown below.

<b>Post Employment Health Care and Life Insurance</b>		
<b>Benefits Provided Through:</b>	<b>Number of Retirees</b>	<b>Cost (In Thousands)</b>
Employees Retirement System	73,703	\$ 343,821
University of Texas System	14,747	36,867
Texas A&M University System	6,145	29,754
Teacher Retirement System (Public School District Employees)	151,763	215,667
Total	<u>246,358</u>	<u>\$ 626,109</u>

Administrators of the ERS and TRS plans for Other Post Employment Benefits (OPEB) will be implementing GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal year 2007. The State of Texas will be implementing GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, in fiscal year 2008. Implementation of these statements does not require the state to change its current funding of OPEB, which is on a pay-as-you-go basis. However, implementation will require actuarial valuations and recognition of a liability for expenses in excess of the annual contributions based on current funding methods. It is anticipated that this

recognition of the OPEB liability and expense could significantly impact the net assets of the state.

## NOTE 12 Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, refer to financial interactions with legally separate entities, i.e., discrete component units and other governments and are restricted to external events.

### Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or non-current.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

### Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after non-operating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as Due From/Due To. Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the Government-wide Statement of Activities as "Transfers-Internal Activities".

According to GASB Statement No. 34, certain reclassifications and eliminations have been made between the Fund Financial Statements and the Government-wide Financial Statements. Resource flows between the primary government and its discretely presented component units have been reported as revenues and expenses, as if they were external transactions on the Fund Financial Statements and the Government-wide Financial Statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the Fund Financial Statements and were reclassified to revenues and expenses, as if they were external transactions on the Government-wide Financial Statements.

Due From/Due To amounts between the primary government and the discretely presented component units are reported separately from Due From/Due To amounts between funds in the Fund Financial Statements and the Government-wide Financial Statements, according to GASB Statement No. 34. Due From/Due To amounts between governmental or business-type activities and fiduciary funds are reported as Due From/Due To amounts between funds

in the Fund Financial Statements and are reclassified to Receivables From Fiduciary Funds/Payables To Fiduciary Funds, as if they were external transactions on the Government-wide Financial Statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

The non-current interfund receivables/payables include loans for energy efficiency programs of approximately \$22.9 million. There is also a \$392.7 million receivable for Texas A&M System from the University of Texas System from Permanent University Funds. The earnings will be used for bond payments. Significant transfers include a \$1.0 billion transfer from lottery earnings to the Foundation School Fund for educational programs, an \$841.8 million transfer from the Permanent School Fund to the Available School Fund, and a \$2.1 billion transfer to the Highway Fund and \$1.4 billion transfer to the Teacher Retirement System Trust Account, both from the General Revenue Fund. The detail of interfund activity and transactions by fund type and category as of August 31, 2006, is shown on the following pages.



## Interfund Receivables/Payables per the Fund Statements

(Amounts in Thousands)

Fund Type	Current		Non-Current		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
<b>INTERFUND RECEIVABLES/PAYABLES WITHIN THE PRIMARY GOVERNMENT</b>						
Governmental Funds						
General Fund	\$ 44	\$ 12	\$ 20,816	\$ 175	\$ 20,860	\$ 187
State Highway Fund	1				1	
Nonmajor Governmental Funds	9	3		3,309	9	3,312
	<u>54</u>	<u>15</u>	<u>20,816</u>	<u>3,484</u>	<u>20,870</u>	<u>3,499</u>
Proprietary Funds						
Colleges and Universities	22,920	22,920	405,970	423,302	428,890	446,222
Nonmajor Enterprise Funds		36				36
	<u>22,920</u>	<u>22,956</u>	<u>405,970</u>	<u>423,302</u>	<u>428,890</u>	<u>446,258</u>
Fiduciary Funds						
Agency Funds		3				3
	<u>0</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
Total Interfund Receivables/Payables Within the Primary Government	<u>\$ 22,974</u>	<u>\$ 22,974</u>	<u>\$ 426,786</u>	<u>\$ 426,786</u>	<u>\$ 449,760</u>	<u>\$ 449,760</u>

## Due From/Due To per the Fund Statements

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
<b>DUE FROM/DUE TO WITHIN THE PRIMARY GOVERNMENT</b>						
Governmental Funds						
General Fund	\$ 109,857	\$	\$ 26	\$ 737,625	\$	\$ 303
State Highway Fund	387,361			18,191		
Permanent School Fund	893			21		
Nonmajor Governmental Funds	76,367			204,762		
	<u>574,478</u>	<u>0</u>	<u>26</u>	<u>960,599</u>	<u>0</u>	<u>303</u>
Proprietary Funds						
Colleges and Universities	434,000			10,663		
Texas Water Development Board Funds				1,900		
Texas Department of Transportation Turnpike Authority	1,827					
Nonmajor Enterprise Funds	40,724			16,640		
Internal Service Fund	19			882		
	<u>476,570</u>	<u>0</u>	<u>0</u>	<u>30,085</u>	<u>0</u>	<u>0</u>
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	15,505			74,284		
Agency Funds	1		274	1,586		
	<u>15,506</u>	<u>0</u>	<u>274</u>	<u>75,870</u>	<u>0</u>	<u>0</u>
Total Due From/Due To Within the Primary Government	<u>\$1,066,554</u>	<u>\$ 0</u>	<u>\$ 300</u>	<u>\$1,066,554</u>	<u>\$ 0</u>	<u>\$ 303</u>
<b>DUE FROM/DUE TO OUTSIDE THE PRIMARY GOVERNMENT</b>						
Discretely Presented Component Units		\$ 303			\$ 300	
Total Due From/Due To Outside the Primary Government	<u>\$ 0</u>	<u>\$ 303</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 300</u>	<u>\$ 0</u>
<b>TOTAL DUE FROM/DUE TO</b>			<u>\$ 1,067,157</u>			<u>\$ 1,067,157</u>

## Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
<b>NON-CURRENT ASSETS</b>			
Internal Balances—Receivables	\$ 17,332	\$ (17,332)	\$ 0
<b>CURRENT LIABILITIES</b>			
Internal Balances—Payables	\$ 447,313	\$ (447,313)	\$ 0

## Transfers In/Out per the Fund Statements

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
General Fund	\$ 1,404,643	\$ 9,635,987
State Highway Fund	3,544,626	337,917
Permanent School Fund		841,879
Nonmajor Governmental Funds	2,394,016	1,616,817
	<u>7,343,285</u>	<u>12,432,600</u>
Proprietary Funds		
Colleges and Universities	4,747,416	418,886
Texas Water Development Board Funds	3,637	9,810
Texas Department of Transportation Turnpike Authority	289,569	
Nonmajor Enterprise Funds	19,498	1,118,178
	<u>5,060,120</u>	<u>1,546,874</u>
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds*	1,724,833	147,690
Private-Purpose Trust Funds*		1,074
	<u>1,724,833</u>	<u>148,764</u>
Total Transfers In/Out	<u>\$ 14,128,238</u>	<u>\$ 14,128,238</u>

\* The Pension Trust Funds Operating Transfers In include both the Transfer In of Contributions and the Transfer In line items.

## Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (3,513,639)
Business-Type Activities	\$ 3,513,639

## NOTE 13

### Fund Balances/Net Assets

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at August 31, 2006. The government-wide, proprietary, and fiduciary restrictions are listed on the face of their Statement of Net Assets.

The Government-wide Statement of Net Assets reports \$48.8 billion of restricted net assets for the primary government, of which \$39.6 billion is restricted by enabling legislation.

<b>Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated</b> (Amounts in Thousands)			
<b>MAJOR FUNDS</b>			
General Fund – Reserved:		Debt Service Funds – Reserved:	
Encumbrances	\$ 967,047	Debt Service	\$ 150,442
Inventories	159,015		
Imprest Accounts	3,452	Capital Projects Funds – Reserved:	
Loans and Contracts	65,993	Encumbrances	\$ 63,340
Interfund Receivables (Non-Current)	20,816	Inventories	84
Tax Receivables (Non-Current)	325,183	Capital Projects	14,552
Health and Human Services	97,246		<u>\$ 77,976</u>
General Government	4,571	Capital Projects Funds – Unreserved:	
Natural Resources and Recreation	4,515	Designated:	
	<u>\$ 1,647,838</u>	Public Safety and Corrections	\$ 2,185
General Fund – Unreserved		Total Unreserved/Designated	<u>2,185</u>
Designated:		Undesignated:	
General Government	\$ 279,892	General Government	698
Total Unreserved/Designated	<u>279,892</u>	Education	(151)
Undesignated:	<u>5,393,160</u>	Health and Human Services	(1,043)
	<u>\$ 5,673,052</u>	Public Safety and Corrections	2,252
State Highway Fund – Reserved:		Natural Resources and Recreation	3,001
Encumbrances	\$ 154,506	Total Unreserved/Undesignated	<u>4,757</u>
Inventories	85,742		<u>\$ 6,942</u>
Imprest Accounts	567	Permanent Funds – Reserved:	
Loans and Contracts	240,061	Education	542,256
	<u>\$ 480,876</u>		<u>\$ 542,256</u>
State Highway Fund – Unreserved/Designated:		Permanent Funds – Unreserved:	
Transportation	\$ (225,214)	Designated:	
Permanent School Fund – Reserved:		Permanent Health Fund	\$ 560,520
Encumbrances	\$ 1,130	Undesignated:	
Loans and Contracts	1,831	General Government	13,764
Public School Support	23,909,423	Education	9
	<u>\$23,912,384</u>	Natural Resources and Recreation	285
		Total Unreserved/Undesignated	<u>14,058</u>
			<u>\$ 574,578</u>
<b>NONMAJOR FUNDS</b>			
Special Revenue Funds – Reserved:		<b>ALL GOVERNMENTAL FUNDS</b>	
Encumbrances	\$ 26,990	Reserved	\$27,646,904
Inventories	555	Unreserved/Designated	1,752,855
Imprest Accounts	10	Unreserved/Undesignated	5,411,975
Loans and Contracts	807,577	Total Fund Balances – Governmental Funds	<u>\$34,811,734</u>
	<u>\$ 835,132</u>		
Special Revenue Funds – Unreserved/Designated:			
General Government	\$ 51,407		
Regulatory Services	271,519		
Health and Human Services	13,208		
Natural Resources and Recreation	109,336		
Education	367,774		
Transportation	310,902		
Public Safety and Corrections	11,009		
Employee Benefits	94		
Teacher Retirement Benefits	223		
	<u>\$ 1,135,472</u>		

## NOTE 14

### Adjustments to Fund Balances/ Net Assets

During fiscal year 2006, certain accounting changes and adjustments were made which required the restatement of fund balances or net assets as shown and discussed below.

<b>Restatements to Fund Balances/Net Assets</b> (Amounts in Thousands)			
	<b>September 1, 2005, As Previously Reported</b>	<b>Restatements</b>	<b>September 1, 2005, As Restated</b>
<b>GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE ACTIVITIES</b>			
Major Funds:			
General Fund	\$ 2,037,789	\$ 65,044	\$ 2,102,833
State Highway Fund	477,427		477,427
Permanent School Fund	22,099,791		22,099,791
Total Major Funds	<u>24,615,007</u>	<u>65,044</u>	<u>24,680,051</u>
Nonmajor Funds:			
Special Revenue Funds	2,287,214	(3,155)	2,284,059
Debt Service Funds	213,165		213,165
Capital Project Funds	160,453	10,702	171,155
Permanent Funds	1,041,969		1,041,969
Total Nonmajor Funds	<u>3,702,801</u>	<u>7,547</u>	<u>3,710,348</u>
Total Governmental Funds	<u>28,317,808</u>	<u>72,591</u>	<u>28,390,399</u>
Governmental Activities:			
Capital Assets Net of Accumulated Depreciation	57,227,907	(10,316)	57,217,591
Long-Term Liabilities	(5,742,489)	(2,392)	(5,744,881)
Other Adjustments	1,741,437		1,741,437
Internal Service Fund	133,253		133,253
Total Governmental Activities	<u>53,360,108</u>	<u>(12,708)</u>	<u>53,347,400</u>
Total Governmental Funds and Government-Wide Activities	<u>81,677,916</u>	<u>59,883</u>	<u>81,737,799</u>
<b>PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES</b>			
Major Funds:			
Colleges and Universities	29,827,000	63,593	29,890,593
Texas Water Development Board Funds	1,711,845		1,711,845
Texas Turnpike Authority	492,856		492,856
Nonmajor Enterprise Funds	<u>1,878,012</u>	<u>(1)</u>	<u>1,878,011</u>
Total Enterprise Funds and Business-Type Activities	<u>33,909,713</u>	<u>63,592</u>	<u>33,973,305</u>
Fiduciary Funds			
Pension and Other Employee Benefit Trust Funds	115,664,077	(18,543)	115,645,534
External Investment Trust Funds	11,683,196	14,103	11,697,299
Private-Purpose Trust Funds	2,720,979		2,720,979
Total Fiduciary Funds	<u>130,068,252</u>	<u>(4,440)</u>	<u>130,063,812</u>
Total Primary Government	<u>245,655,881</u>	<u>119,035</u>	<u>245,774,916</u>
Discretely Presented Component Units	<u>307,032</u>		<u>307,032</u>
Total Reporting Entity	<u>\$245,962,913</u>	<u>\$ 119,035</u>	<u>\$246,081,948</u>

## Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Total Restatements
A.	\$ 76,408	\$ 63,717	\$ (4,440)	\$ 135,685
B.	(10,316)	(125)		(10,441)
C.	(6,417)			(6,417)
D.	208			208
Total Restatements	<u>\$ 59,883</u>	<u>\$ 63,592</u>	<u>\$ (4,440)</u>	<u>\$ 119,035</u>

- A. These are miscellaneous restatements and other changes necessary to correct accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures.
- B. This restatement is for adjusting capital assets and accumulated depreciation.
- C. This restatement is for the restatement of funds from a particular fund type to another. The overall negative balance is due to activity that was previously reported in the General Fund being reclassified to Agency Funds.
- D. This restatement recognizes the addition of certain organizations as blended component units as a result of re-evaluation of GASB Statement No. 14, *Financial Reporting Entity*, criteria.

## NOTE 15 Contingent Liabilities

The state has been named as a defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

### Protested Tax Payments

As of August 31, 2006, the state held protested tax payments of \$110.8 million, the majority of which were held by the State Comptroller. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance

taxes, surtaxes, and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use, and oil and gas production taxes totaling \$808.0 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

### Unpaid Claims and Lawsuits

A variety of cases with claims totaling \$235.9 million have been filed which may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of \$71.1 million from litigation and contractual claims. The Department of Family and Protective Services is potentially impacted from civil rights, discrimination, and tort claims of \$99.4 million.

### Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds, and federal drawdowns.

The Texas Water Development Board has loan commitments totaling \$730.8 million as of August 31, 2006.

### Federal Assistance

The state receives federal financial assistance, which is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

An audit of the Health and Human Services Commission (HHSC) conducted as part of the Statewide Single Audit produced findings involving the Medicaid, Food

Stamp, and Temporary Assistance for Needy Families (TANF) programs. Based on questioned costs identified by that audit, it is reasonably possible that disallowances and/or sanctions could be imposed by the U.S. Department of Health and Human Services (HHS) and the U.S. Department of Agriculture (USDA). The questioned costs relate to processes and systems used to support eligibility decisions for the Medicaid, Food Stamp, and TANF programs, particularly those dealing with validation and maintenance of required documentation. Because of differences between the methodologies used to determine questioned costs for the Statewide Single Audit and the methodologies used by HHS and USDA to determine disallowances for the three programs, an accurate projection of any future liability related to these questioned costs cannot be reasonably estimated.

However, 89 percent of the reasonably possible questioned costs involve a newly implemented eligibility process and its underlying system, which is currently in the pilot phase. The new process is used to determine eligibility for approximately 5 percent of the programs' clients.

### Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

### Guaranteed Debt

At August 31, 2006, \$37.8 billion in debt had been guaranteed by the Permanent School Fund for 2,265 outstanding bond issues in 735 school districts in the state. Under state statute, payments by the Permanent School Fund on such guarantees are recoverable from the State of Texas. The \$37.8 billion represents principal amount and does not

reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

### Partnerships

The University of Texas System has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to \$1.7 billion as of August 31, 2006. The Teacher Retirement System has \$3.5 billion in remaining commitments for private equity domestic and international partnerships.

## NOTE 16 Subsequent Events

### Primary Government

State agencies and universities have issued \$2.4 billion in new bonds and commercial paper and over \$90.6 million in refunding bonds since August 31, 2006. This routine activity finances state facilities, housing assistance programs, educational loans, and refunds outstanding debt.

**Texas Public Finance Authority (TPFA)** issued \$8.7 million in revenue bonds and \$65.0 million in Commercial Paper Notes for various agencies.

The total amount of bonds issued also includes the issuance of over \$80.6 million in refunding bonds by the Veterans Land Board.

The **Texas Department of Housing and Community Affairs** issued \$77.9 million in multi-family revenue bonds, \$132.2 million in single-family revenue bonds, and over \$10.0 million in refunding bonds.

In September 2006, the **Texas Workforce Commission** and its advisors determined that sufficient balances existed in the Obligation Assessment Fund to enable redemption of some of the variable rate bonds (series C). On September 15, 2006, the Texas Workforce Commission transferred to the Texas Public Finance Authority over \$60.7 million, these funds will reduce the amount of debt of the series C principal outstanding to over \$46.3 million. This transaction will reduce the amount of debt remaining,

if any, in the last year of the bond debt service, and also reduce interest paid by lowering the principal outstanding, by selectively redeeming variable rate bonds with the highest interest rates.

On February 6, 2007, the **University of North Texas System** (UNT) issued bonds totaling \$56.0 million. The proceeds will be used for the construction of two residence halls at the Denton campus and to purchase and renovate property in downtown Dallas. The Dallas property will be used for academic and administrative purposes.

On October 31, 2006, the **Texas Department of Transportation** issued over \$1.0 billion in Mobility Bond Funds (Series 2006A) to pay or reimburse the State Highway Fund for the payment of the costs of (i) constructing, reconstructing, acquiring, and expanding state highways and providing participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects; and (ii) issuing the Bonds. On November 8, 2006, the Texas Department of Transportation issued \$100.0 million in Revenue Bonds Series 2006B, and on November 21, 2006, the Texas Department of Transportation issued \$852.6 million in Revenue Bonds Series 2006A for the purpose of (i) financing state highway improvement projects that are eligible for funding with revenues dedicated under Article VIII, Section 7-a of the Texas Constitution; and (ii) to pay the costs of issuing the bonds.

The **Texas A&M University System** intends to issue up to \$125.0 million of Revenue Financing System Commercial Paper Notes, Series B and \$75.0 - \$100.0 million of Permanent University Fund Flexible Rate Notes during fiscal year 2007. In addition, during fiscal year 2007, the A&M System intends to issue Revenue Financing System Bonds or Permanent University Fund Bonds to refund currently outstanding bonds for savings (if economical) and to pay the costs of issuing the bonds.

On September 1, 2006, **Texas State University System** issued \$23.5 million of revenue bonds. The proceeds will be used to finance new student housing on the Angelo State University Campus.

The **University of Texas System** (UT) intends to issue Revenue Financing System Bonds, totaling \$600.0 million

and Permanent University Fund bonds, totaling \$400.0 million. The purpose for the Revenue Financing System Bonds will be to finance and refinance the costs of acquiring, purchasing, constructing, improving, enlarging, and equipping the property and facilities of the Members of the revenue Financing System; refunding all or a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, refunding all or a portion of the Potential Refunded bonds, and paying the costs of issuance. The purpose of the Permanent University Fund bonds will be to finance and refinance the costs of acquiring, purchasing, constructing, improving, enlarging, and equipping the property and facilities; refunding all or a portion of the outstanding Permanent University Fund Flexible Rate Notes, Series A, refunding all or a portion of the Potential Refunded bonds, and paying the costs of issuance.

### Component Unit

On October 1, 2006, the Texas State Affordable Housing Corporation issued \$23.7 million in single-family mortgage revenue bonds (Series 2006C).

## NOTE 17 Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

The Texas Employees Group Benefits Program (GBP) provides health, life, accidental death and dismember-



ment (AD&D), disability, and dental insurance coverage to state and higher education employees, retirees, and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts, and dental health maintenance organization (DHMO) contracts. Effective September 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The GBP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D, and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully insured. The ERS approved two dental plans for fiscal year 2006, a dental health maintenance organization (DHMO) administered by Aetna Dental, Inc., and a dental indemnity plan administered by the Government Employees Hospital Association (GEHA). The DHMO is fully insured with all risk transferred to Aetna Dental, Inc. Beginning September 1, 1997, the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a new statewide health coverage program for public school employees and their dependents. The Teacher Retirement System administers this program. Enrollment commenced in September 2002. The new plan took effect September 1, 2002, and includes employees of most small to mid-size districts, charter schools, education service centers, and certain other employers.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' com-

pensation, unemployment compensation, employee health, and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported), but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends, and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the General Fund government-wide governmental activities, Enterprise Funds, Internal Service Fund, and Colleges and Universities during fiscal years ending August 31, 2005, and August 31, 2006. Claims and judgment amounts presented in Note 5 (Long-Term Liabilities) are also included in the table.

### Changes in Claims Liability Balances (Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending* Balance
2006	\$ 791,206	\$2,400,267	\$2,381,247	\$810,226
2005	\$2,815,378	\$1,900,150	\$3,924,322	\$791,206 **

\* The ending balance includes both Short-Term and Long-Term claims. Long-Term claims are reported in the general ledger accounts Claims and Judgments (Current and Non-Current Liabilities) which are included in Note 5 (Long-Term Liabilities). Short-Term Claims, the majority of which relate to claims filed for the State's Group Benefits Program, are reported as Accounts Payable and are not included in Note 5.

\*\* The table has been adjusted to exclude the Texas Guaranteed Tuition Plan which does not meet the scope of GASB 10 and should therefore not be included in this note.

## NOTE 18 Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final



decision is reached. Collectibility of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of August 31, 2006, the redetermination hearings process had an estimated amount of \$384.0 million.

## NOTE 19

### Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. However, most component units are discretely presented. None of the component units for the State of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended August 31, 2006, unless indicated otherwise. There are no material blended component units of the state.

#### Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the Component Units column of the state's financial statements.

**State Bar of Texas** is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public respon-

sibilities of the legal profession are effectively discharged. The State of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2006. Separate financial statements may be obtained by contacting the State Bar of Texas at P.O. Box 12487, Austin, Texas 78711.

**Texas Agricultural Finance Authority** (Authority) is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state. The Governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The Commissioner of TDA administers the Authority with the assistance of the board. The Authority was created to provide financial assistance for the expansion, development, and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

**Texas On-Site Wastewater Treatment Research Council** (Council) awards competitive grants and contracts to support applied research, demonstration projects, and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the State of Texas. The Council is a component unit due to its fiscal dependency on the Texas Commission on Environmental Quality (TCEQ). The Council's fiscal operations (revenues, budget, expenditures, and administration) are maintained by TCEQ. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the TCEQ's combined financial statements.

**Texas Appraiser Licensing and Certification Board** (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The Governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in presentation of incomplete financial statements. TALCB serves the real estate community in Texas.

Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

**Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.** (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the Governor with the advice and consent of the Senate, and three members appointed jointly by the Comptroller and the member who is appointed by the Governor. Separate financial statements may be obtained by contacting the State Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

**Texas Guaranteed Student Loan Corporation** (Corporation) is a public non-profit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The State of Texas is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the Governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of \$1.5 million to fund initial startup operations. The Corporation is reported for the year ended September 30, 2006. Separate financial statements may be obtained by contacting the Texas Guaranteed Student Loan Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

**Texas Boll Weevil Eradication Foundation, Inc.** (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the TDA and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees, and debt. The Foundation is reported for the year ended December 31, 2005. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

**Texas Water Resources Finance Authority** (Authority) was created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting the TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

**Texas Small Business Industrial Development Corporation** (TSBIDC) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the State of Texas. The Office of the Governor is the oversight agency for the TSBIDC and is its reporting entity. The board of directors is appointed by the Governor. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Texas Economic Development Corporation** (TED Corp), a non-profit corporation, was created in 1991 under the provisions of the Texas Non-Profit Corporation Act to assist, promote, develop, and advance economic development in the State of Texas. The Office of the Governor is the oversight agency for the TED Corp and is its reporting entity. The board of directors is appointed by the Governor. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Texas Disaster Relief Fund** (TDRF), a non-profit corporation, was established to help the Governor's Office provide disaster relief. The Governor's Office Chief of Staff, Director of Homeland Security, and the Chief Financial Officer serve as initial directors and will change only when these positions change. The services provided by TDRF assist the Governor's Office in responding to the needs of the citizens before, during, and after a disaster in Texas. The corporation's financial statements for the fiscal year ending December 31, 2005, may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

**Surplus Lines Stamping Office of Texas** (Office) is a non-profit corporation created by the Texas Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's Commissioner appoints the board. The Office performs its functions under a plan of operation approved by order of TDI. The Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Office. The State of Texas has the ability to impose its will upon the Office through the approval of the assessment rate that funds its operations. The Office is reported for the year ended December 31, 2005. Separate financial statements may be obtained at P.O. Box 160170, Austin, Texas 78716-0170.

**Texas Health Reinsurance System** reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's Commissioner appoints, supervises and controls the nine-member board. The State of Texas has the ability to impose its will through TDI Commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

**Texas Health Insurance Risk Pool** provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members, is appointed by TDI's Commissioner. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

**Texas State Affordable Housing Corporation** (TSAHC) was incorporated under the Texas Non-Profit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans who are not afforded housing finance options through conventional lending channels, professional educators, firefighters, and police officers who are first-time home buyers. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR

as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

### **Related Organizations**

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, however, the state is not financially accountable for the entity.

**Life, Accident, Health, and Hospital Service Insurance Guaranty Association** (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident, and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's Commissioner appoints a board of directors of the Association consisting of nine members.

**Texas Title Insurance Guaranty Association** was created for the purpose of providing funds for the protection of holders of "covered claims", as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's Commissioner.

**Texas Mutual Insurance Company** (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the State of Texas, and also serves as the insurer of last resort. It is legally separate and fiscally independent of the state, but the state appoints a voting majority of the Texas Mutual's board.

**Texas Institute for Genomic Medicine** (TIGM) is a non-profit institute founded in 2005 under a \$50 million award from the Texas Enterprise Fund to pioneer the development of life changing medical breakthroughs, accelerate the pace of medical discoveries, and foster the development of the biotechnology industry in Texas. The voting majority of the TIGM Board is appointed by the A&M System Board of Regents upon recommendations from member CEOs.

**Midwestern State University Charitable Trust** is a non-profit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a five-member Board of Trustees. This Board appoints individuals to fill vacancies on the Board as they occur.

**River Authorities** are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Texas Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power, and all other useful purposes, the reclamation and irrigation of its arid, semiarid, and other lands needing irrigation, the reclamation of drainage of its overflowed lands, and other lands needing drainage, the conservation and development of its forests, water and hydro-electric power, the navigation of its inland and coastal waters, and the preservation and conservation of all such natural resources of the state. The State of Texas has voting majority for the following fourteen river/water authorities:

- Angelina-Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe Blanco River Authority
- Lavaca Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

## **NOTE 20**

### **Deficit Fund Balances/Net Assets**

#### **A. Primary Government**

##### ***Proprietary Funds***

**The Texas Prepaid Higher Education Tuition Board**, a nonmajor enterprise fund, reported a deficit of \$110.3 million. This deficit was caused by tuition increases at Texas public senior colleges for the academic years 2002 through 2005. A prolonged stock market downturn in 2000 through 2002 also contributed to this deficit.

#### **B. Discretely Presented Component Units**

**The Texas Agricultural Finance Authority (TAFa)**, a component unit created within the Texas Department of Agriculture (TDA), reported a deficit Unrestricted Net Assets of \$351 thousand. This results from an allowance for uncollectible accounts in prior years in the TAFa loan program. To reduce the risk of future allowances, the board made lending criteria more stringent and strictly adheres to the established policies and procedures. The 76th and 77th Legislatures adopted legislation that allows a larger pool of eligible borrowers to the financial assistance program. With the current performing commitments and the approved expansion, the program has the ability to provide the earnings for future uncollectible allowances and offset the current deficit in the loan program.

**The Texas Appraiser Licensing and Certification Board (TALCB)**, a component of the Texas Real Estate Commission, reported a deficit Unrestricted Net Assets of \$13 thousand. This deficit was caused by a timing difference in posting liability accruals and the corresponding asset.

**The Texas Boll Weevil Eradication Foundation, Inc.**, a component unit of TDA, reported a deficit Unrestricted Net Assets of \$42.6 million. This is a result of incurring debt during the early years of the eradication program which resulted in a decrease in unrestricted net assets on the Statement of Activities and an unrestricted deficit on the Statement of Net Assets. Although this "loss" was incurred during the initial operations of the program, management expects the increase in net assets in later years to offset this loss.

## NOTE 21 Tobacco Settlement

The State of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.1 billion over the first 25 years of the agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation, and any other court-ordered factors; however, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped (sales). Since annual payments are based on cigarette sales from the preceding calendar year, a revenue accrual of \$353.2 million was made on sales calculated from January 1 to the end of the fiscal year. Tobacco settlement revenues in fiscal year 2005 were \$811.1 million and \$550.9 million in fiscal year 2006. The 2005 revenues reflect a change in calculation method for the portion of tobacco settlement revenue that is applicable to fiscal year 2005. Cumulative actual tobacco settlement revenues as of fiscal year 2006 were \$4.7 billion.

## NOTE 22 Donor-Restricted Endowments

The State of Texas has donor-restricted endowments with net appreciation of \$22.7 billion on investments which are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the Donor-Restricted Endowments schedule below. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment have been met. Expendable funds are those funds that may be expended for

either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those that are required to be retained in perpetuity. The policies of each individual state agency govern the authorizing and spending of net appreciation on endowment investments.

Each endowment fund evaluated the allocation of their restricted net assets as either expendable or nonexpendable. The Permanent School Fund (PSF) and Permanent University Fund (PUF) each consider historical oil and gas contributions from endowment lands as nonexpendable net assets. The PUF also considers the reported value of the land as nonexpendable net assets. The PSF does not include the value of their land in calculating nonexpendable net assets as the land is considered investment property and not part of the original corpus of the endowment. The remaining restricted net assets of each endowment are classified as expendable.

The Uniform Management of Institutional Funds Act, as adopted by the Texas State Legislature, gives guidelines on how endowments should be maintained for higher education institutions. Other endowment funds are governed by provisions of the State Constitution. Distributions made by the PSF and PUF endowments to the Available School Fund and the Available University Fund are made using a total return methodology. Most state agencies have an internal target distribution rate per unit of expendable income between 3 to 6 percent of the average market value of the endowment fund for the preceding 12 quarters.

### Donor-Restricted Endowments (Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Assets
True Endowments	\$22,670,638	Expendable
Term Endowments	38	Expendable
	<u>\$22,670,676</u>	

## NOTE 23

### Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items, as defined in GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state reported a special item equal to \$38.9 million in the current fiscal year. Special items are significant items, subject to management control, that meet one, but not both of the criteria used for identifying extraordinary items. The Texas State University System issued Revenue System Financing Revenue Bonds, Series 2006, to acquire the housing and educational facilities previously owned by the Limited Liability Corporations Texan Hall, Cardinal Village, Bobcat Village, and San Marcos Hall located on the campuses of Angelo State University, Lamar University, and Texas State University-San Marcos, respectively. The \$38.9 million equals the net of the amount recorded as the facilities’ values and the amount of bond proceeds remitted to the escrow agent to defease the Limited Liability Companies’ outstanding bonds payable.

## NOTE 24

### Taxes Receivable

Taxes receivable represent amounts due to the state at August 31, 2006, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as “current” and amounts expected to be collected beyond the next fiscal year are classified as “non-current”. The receivables have

been recorded net of allowances for uncollectible accounts. Revenue is recorded on the governmental Fund Financial Statements using the modified accrual basis of accounting for amounts due to the State of Texas at August 31, 2006, that are considered “available” (e.g. received by the state within approximately 60 days after that date). Revenue earned but not “available” at August 31, 2006, is recorded as deferred revenue. Prepaid taxes are also recorded as deferred revenue.

On the Government-wide Financial Statements, a corresponding amount is recorded as revenue using the accrual basis of accounting, which includes revenue earned at fiscal year end regardless of its availability. Deferred revenue includes only the prepaid taxes that have not been earned by fiscal year end. Taxes receivable are the same for both modified and full accrual bases.

Taxes Receivable, as reported in the General Fund on the Balance Sheet – Governmental Funds, are detailed by tax type as follows.

#### Taxes Receivable by Tax Type

August 31, 2006 (Amounts in Thousands)

Tax Type	Net Taxes Receivable
Sales and Use Tax	\$ 1,411,443
Motor Vehicle and Manufactured Housing	75,122
Motor Fuels	145,068
Franchise	344,398
Oil and Natural Gas Production	443,028
Insurance Occupation	97,143
Cigarette and Tobacco	8,596
Other	182,722
Total Net Taxes Receivable	<u>\$2,707,520</u>
<b>Liquidity Characteristics:</b>	
Current Taxes Receivable	\$2,382,337
Non-Current Taxes Receivable	325,183
Total Net Taxes Receivable	<u>\$2,707,520</u>

## COBRA Benefits

(Amounts in Thousands)

Benefits Provided Through:	Number of Participants	Premium Revenue	2 Percent Administrative Fee Revenue	Claims Paid	Cost to State
Employees Retirement System	2	\$ 7,348	\$ 147	\$15,878	\$ 8,383
University of Texas System	1	3,536	70	5,470	1,864
Texas A&M University System*	1	779	N/A	1,661	882
Teacher Retirement System**	N/A	N/A	N/A	N/A	N/A
Total	4	\$11,663	\$ 217	\$23,009	\$11,129

\* The participants and costs for A&M University System are for the self insured program. The System also has 147 participants in HMO groups. The cost for the HMO is unknown. The 2 percent administrative fee is not retained by the System but is passed to the carrier.

\*\* The Teacher Retirement System Active Care Plan is administered by the system for public school district employees. The state is not the employer nor does it contribute to the plan.

## NOTE 25 Termination Benefits

Healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in the Group Benefits Program for 18 months or 29 months if disabled. Dependents are eligible to remain in the program for 36 months. COBRA benefits for the state in fiscal year 2006 are shown above.

Termination benefits of \$570.7 thousand were also incurred. The benefits include severance payments made during the fiscal year to 57 employees as a result of an involuntary workforce reduction and for a contract negotiation upon resignation by an employee. All benefit payments will be made within one year.

## NOTE 26 Segment Information

### Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets, and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. The purpose of the segment supports the primary mission of the enterprise in which it is reported; therefore, the segment is separately reported on the Government-wide Statement of Activities. The activities reported in the following financial information meet these requirements.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans, and gold star parents of veterans of the State of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which require these homes' revenues, expenses, gains and losses, assets, and liabilities to be separately accounted for and independently audited. The following tables present the financial statements of the homes related to the revenue bonds.



## Condensed Statement of Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
<b>ASSETS</b>	
Current Restricted Assets:	
Cash and Cash Equivalents	\$ 9,964
Other Current Assets	3,711
Capital Assets, Net of Depreciation	32,652
Total Assets	<u>46,327</u>
<b>LIABILITIES</b>	
Current Liabilities	4,866
Non-Current Liabilities	23,675
Total Liabilities	<u>28,541</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	8,667
Restricted Net Assets	9,119
Total Net Assets	<u>\$ 17,786</u>

## Condensed Statement of Revenues, Expenses, and Changes in Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
<b>OPERATING REVENUES (EXPENSES)</b>	
Sale of Goods and Services	\$ 34,783
Other Operating Revenues	6
Operating Expenses	(31,831)
Net Operating Income	<u>2,958</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Other Non-Operating Revenues	424
Interest Expense	(937)
Change in Net Assets	<u>2,445</u>
Net Assets, September 1, 2005	<u>15,341</u>
Net Assets, August 31, 2006	<u>\$ 17,786</u>

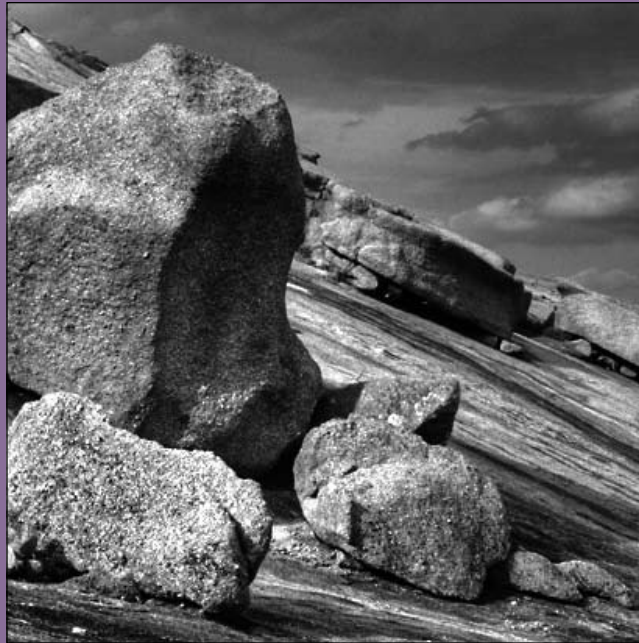
## Condensed Statement of Cash Flows

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
<b>NET CASH PROVIDED (USED) BY:</b>	
Operating Activities	\$ 4,747
Financing Activities	(1,234)
Investing Activities	393
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>3,906</u>
Cash and Cash Equivalents, September 1, 2005	<u>6,058</u>
Cash and Cash Equivalents, August 31, 2006	<u>\$ 9,964</u>



STATE *of* TEXAS



REQUIRED  
SUPPLEMENTARY  
INFORMATION  
OTHER THAN  
MD&A

# State of Texas

## Budgetary Comparison Schedule

### General Fund

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
<b>REVENUES</b>				
Taxes	\$ 29,080,481	\$ 32,250,513	\$ 33,487,062	\$ 1,236,549
Federal	20,136,208	21,200,976	20,788,373	(412,603)
Licenses, Fees, and Permits	1,841,516	2,397,664	2,218,323	(179,341)
Interest and Other Investment Income	230,734	275,958	539,854	263,896
Land Income	9,767	9,884	18,643	8,759
Settlement of Claims	488,323	519,989	547,080	27,091
Sales of Goods and Services	900,407	972,092	982,724	10,632
Other	1,727,921	2,167,659	2,118,564	(49,095)
Total Revenues	<u>54,415,357</u>	<u>59,794,735</u>	<u>60,700,623</u>	<u>905,888</u>
<b>EXPENDITURES</b>				
General Government	4,008,048	3,080,486	2,287,383	793,103
Education	15,830,199	16,351,803	16,036,885	314,918
Employee Benefits	1,040,342	1,138	1,049	89
Teacher Retirement Benefits	250	250	250	
Health and Human Services	25,454,884	25,042,641	24,339,274	703,367
Public Safety and Corrections	2,984,294	4,493,275	4,309,481	183,794
Transportation	822	9,407	8,667	740
Natural Resources and Recreation	965,331	1,090,734	886,470	204,264
Regulatory Services	238,899	285,369	281,839	3,530
Total Expenditures	<u>50,523,069</u>	<u>50,355,103</u>	<u>48,151,298</u>	<u>2,203,805</u>
Excess of Revenues				
Over Expenditures	<u>3,892,288</u>	<u>9,439,632</u>	<u>12,549,325</u>	<u>3,109,693</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	2,496,988	2,241,271	1,404,643	(836,628)
Transfer Out	(8,818,660)	(9,251,906)	(9,635,987)	(384,081)
Sale of Capital Assets	10,976	15,359	12,879	(2,480)
Insurance Recoveries	691	985	564	(421)
Available Beginning Balances	4,205,727	4,205,727	4,205,727	
Total Other Financing Sources (Uses)	<u>(2,104,278)</u>	<u>(2,788,564)</u>	<u>(4,012,174)</u>	<u>(1,223,610)</u>
Excess of Revenues and Other				
Financing Sources Over Expenditures				
and Other Financing Uses	<u>\$ 1,788,010</u>	<u>\$ 6,651,068</u>	<u>\$ 8,537,151</u>	<u>\$ 1,886,083</u>

**State of Texas**  
**Budgetary Comparison Schedule**  
**Major Special Revenue Fund – State Highway Fund**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	<b>Budgetary Amounts</b>		<b>Actual Amounts</b>	<b>Final</b>
	<b>Original</b>	<b>Final</b>	<b>Budgetary Basis</b>	<b>to Actual Variance</b>
<b>REVENUES</b>				
Taxes	\$ 34,652	\$ 34,884	\$ 34,887	\$ 3
Federal	3,670,112	3,625,135	3,212,160	(412,975)
Licenses, Fees, and Permits	965,011	963,273	1,004,807	41,534
Interest and Other Investment Income	11,514	11,514	48,124	36,610
Land Income	2,192	2,192	3,732	1,540
Settlement of Claims	1	1,501	1,510	9
Sales of Goods and Services	278,841	333,863	250,515	(83,348)
Other	9,174	31,986	5,800	(26,186)
Total Revenues	<u>4,971,497</u>	<u>5,004,348</u>	<u>4,561,535</u>	<u>(442,813)</u>
<b>EXPENDITURES</b>				
General Government	10,066	14,071	12,533	1,538
Education	50,000	50,000	50,000	
Health and Human Services	10,000	10,000	10,000	
Public Safety and Corrections	450,185	600,063	578,233	21,830
Transportation	6,803,291	7,363,538	7,274,080	89,458
Total Expenditures	<u>7,323,542</u>	<u>8,037,672</u>	<u>7,924,846</u>	<u>112,826</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(2,352,045)</u>	<u>(3,033,324)</u>	<u>(3,363,311)</u>	<u>(329,987)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	2,254,466	2,154,573	3,544,626	1,390,053
Transfer Out			(337,917)	(337,917)
Bond Proceeds*	600,000	600,000	600,000	
Sale of Capital Assets	11,083	11,083	4,321	(6,762)
Insurance Recoveries	7,077	8,038	6,678	(1,360)
Available Beginning Balances	261,581	261,581	261,581	
Total Other Financing Sources (Uses)	<u>3,134,207</u>	<u>3,035,275</u>	<u>4,079,289</u>	<u>1,044,014</u>
Excess of Revenues and Other				
Financing Sources Over Expenditures				
and Other Financing Uses	<u>\$ 782,162</u>	<u>\$ 1,951</u>	<u>\$ 715,978</u>	<u>\$ 714,027</u>

\* The State Highway Fund received \$600 million in Bond Proceeds. These are authorized by Article 3, Sec 49-n of the Texas Constitution and Section 222.003, Texas Transportation Code.

## Note to Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of these differences is required and is presented below.

<b>Reconciliation of Budgetary Basis to GAAP Basis</b>		
<b>August 31, 2006 (Amounts in Thousands)</b>		
	<b>General Fund</b>	<b>State Highway Fund</b>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$8,537,151	\$ 715,978
Basis of Accounting Differences:		
Receivables and Deferred Revenues	1,219,232	(302,542)
Payables	(344,383)	(363,394)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(4,205,727)	(261,581)
Federal Program Revenues Not Budgeted	4,052,383	
Federal Program Expenditures Not Budgeted	(4,052,383)	
Other Revenues Not Budgeted	125,238	
Other Expenditures Not Budgeted	(116,346)	(10,226)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	2,892	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis	<u>\$5,218,057</u>	<u>\$ (221,765)</u>

The major reconciling items between the Budgetary Comparison Schedule Actual and the GAAP Financial Statements are due to the following items.

### Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP Financial Statements. Therefore, deferred revenues, receivables, and payables are included as reconciling items.

## Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program, and the Disproportionate Share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as Other Financing Sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as Financing Sources on the GAAP Financial Statements.

## Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budgetary Comparison Schedule.

## Excess of Actual Budgetary Basis Expenditures over Final Budget

Other Nonmajor Funds – All funds that have an excess of expenditures over appropriations variance is a result of direct funding from either appropriated transfers-in and/or beginning cash balances. Other variances due to presenting data on a budgetary basis of accounting can be attributed to a net increase in accruals which include prior year amounts.

## Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the state has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

### Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10.0% of the Interstate system and 5.0% of the Non-Interstate system (US, State, and FM roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the high-

ways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

### Assessed Conditions

TxDOT has adopted a minimum condition level of 80 percent for the Interstate system and 75 percent for the Non-Interstate system.

For the current year and four prior years, the results of the condition assessments are as follows.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)
2006	83.4%	78.0%
2005	82.1%	77.9%
2004	82.3%	79.1%
2003	81.3%	78.5%
2002	82.5%	78.7%

### Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT’s estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost (Amounts in Thousands)					
	2006	2005	2004	2003	2002
<b>INTERSTATE HIGHWAYS</b>					
Estimate	\$ 469,818	\$ 314,000	\$ 400,000	\$ 400,000	\$ 210,000
Actual	\$ 434,088	\$ 427,107	\$ 383,933	\$ 330,766	\$ 386,032
<b>OTHER HIGHWAYS</b>					
Estimate	\$1,608,015	\$1,590,417	\$1,450,000	\$1,450,000	\$1,444,000
Actual	\$1,750,438	\$1,604,781	\$1,378,863	\$1,483,210	\$1,489,744

### Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition

level of the highways. In comparing actual expenditures to estimated expenditures, factors, such as increases in traffic, legislative mandates, budgetary constraints, and environ-

mental effects (rainfall, drought, freeze, thaw, etc.), should be considered as they may have a major impact on needed funds and the condition of Texas roads.

STATE *of* TEXAS



OTHER  
SUPPLEMENTARY  
INFORMATION



## WEST TEXAS SKY



STATE *of* TEXAS



COMBINING  
FINANCIAL  
STATEMENTS  
AND SCHEDULES



OCOTILLO AND STORM  
SOUTH TEXAS

STATE *of* TEXAS



GOVERNMENTAL  
FUNDS



CYPRESS TREES  
PEDERNALES RIVER

**State of Texas**  
**Combining Balance Sheet – Nonmajor Governmental Funds**  
**August 31, 2006 (Amounts in Thousands)**

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$1,026,975	\$ 6,095	\$ 91,300	\$ 338	\$1,124,708
Short Term Investments	45,857		1,037	15,602	62,496
Securities Lending Collateral				49,628	49,628
Receivables:					
Accounts	1,792		1,457		3,249
Federal	1,390	174			1,564
Investment Trades				1,632	1,632
Interest and Dividends	17,385	1,509	9	2,536	21,439
Due From Other Funds	69,599	31	6,737		76,367
Interfund Receivable			9		9
Inventories	555		84		639
Investments	10,061	24,401		1,100,499	1,134,961
Loans and Contracts	217,133				217,133
Other Assets	8,035				8,035
Restricted:					
Cash and Cash Equivalents	133,784	118,780			252,564
Receivables	1				1
Loans and Contracts	590,444				590,444
Other Assets	109,314				109,314
Total Assets	<u>\$2,232,325</u>	<u>\$ 150,990</u>	<u>\$ 100,633</u>	<u>\$1,170,235</u>	<u>\$3,654,183</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 20,051	\$ 517	\$ 11,962	\$ 283	\$ 32,813
Investment Trades				3,490	3,490
Payroll	6,758				6,758
Federal	65				65
Interest	26,777				26,777
Due To Other Funds	204,516	31	215		204,762
Interfund Payable			3,312		3,312
Deferred Revenues	747				747
Obligations/Securities Lending				49,628	49,628
Other Liabilities	2,807		226		3,033
Total Liabilities	<u>261,721</u>	<u>548</u>	<u>15,715</u>	<u>53,401</u>	<u>331,385</u>
Fund Balances:					
Reserved (Note 13)	835,132	150,442	77,976	542,256	1,605,806
Unreserved (Note 13)	1,135,472		6,942	574,578	1,716,992
Total Fund Balances	<u>1,970,604</u>	<u>150,442</u>	<u>84,918</u>	<u>1,116,834</u>	<u>3,322,798</u>
Total Liabilities and Fund Balances	<u>\$2,232,325</u>	<u>\$ 150,990</u>	<u>\$ 100,633</u>	<u>\$1,170,235</u>	<u>\$3,654,183</u>

**State of Texas**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Nonmajor Governmental Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
<b>REVENUES</b>					
Federal	\$ 21,779	\$ 697	\$ 1,642	\$	\$ 24,118
Licenses, Fees, and Permits	352,371				352,371
Interest and Other Investment Income	105,296	16,814	5,113	102,468	229,691
Land Income	1,120		(56)	21	1,085
Settlement of Claims	69		20		89
Sales of Goods and Services	5,524		6,981		12,505
Other	54,814	2,061	20	1	56,896
Total Revenues	<u>540,973</u>	<u>19,572</u>	<u>13,720</u>	<u>102,490</u>	<u>676,755</u>
<b>EXPENDITURES</b>					
Current:					
General Government	160,707	232	58,866	5,378	225,183
Education	1,566,153	463	2,133		1,568,749
Employee Benefits	12,077				12,077
Teacher Retirement Benefits	24				24
Health and Human Services	19,577		13,440		33,017
Public Safety and Corrections	66,743		9,244		75,987
Transportation	3,180		19,842		23,022
Natural Resources and Recreation	53,696	5	1,644	38	55,383
Regulatory Services	11,945				11,945
Capital Outlay	9,920		50,534		60,454
Debt Service:					
Principal	24,517	336,341	26,912		387,770
Interest	54,691	172,998			227,689
Other Financing Fees	1,115				1,115
Total Expenditures	<u>1,984,345</u>	<u>510,039</u>	<u>182,615</u>	<u>5,416</u>	<u>2,682,415</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>(1,443,372)</u>	<u>(490,467)</u>	<u>(168,895)</u>	<u>97,074</u>	<u>(2,005,660)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	1,807,839	585,081	1,096		2,394,016
Transfer Out	(1,500,223)	(85,614)	(8,771)	(22,209)	(1,616,817)
Bonds and Notes Issued	750,184		90,200		840,384
Bonds Issued for Advance Refunding	72,005				72,005
Payment to Escrow for Advance Refunding		(72,005)			(72,005)
Sale of Capital Assets	3	282			285
Increase in Obligations Under Capital Leases	31				31
Insurance Recoveries	78		133		211
Total Other Financing Sources (Uses)	<u>1,129,917</u>	<u>427,744</u>	<u>82,658</u>	<u>(22,209)</u>	<u>1,618,110</u>
Net Change in Fund Balances	<u>(313,455)</u>	<u>(62,723)</u>	<u>(86,237)</u>	<u>74,865</u>	<u>(387,550)</u>
Fund Balances, September 1, 2005	2,287,214	213,165	160,453	1,041,969	3,702,801
Restatements	(3,155)		10,702		7,547
Fund Balances, September 1, 2005, as Restated	<u>2,284,059</u>	<u>213,165</u>	<u>171,155</u>	<u>1,041,969</u>	<u>3,710,348</u>
Fund Balances, August 31, 2006	<u>\$ 1,970,604</u>	<u>\$ 150,442</u>	<u>\$ 84,918</u>	<u>\$ 1,116,834</u>	<u>\$ 3,322,798</u>

## NONMAJOR SPECIAL REVENUE FUNDS

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The **Student Loan Funds** receive proceeds from the issuance of bonds that are used to make loans to qualifying students who have been admitted to attend any institution of higher education within the State of Texas.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development Bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a non-bypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education, and school funding loss mechanism.

The **Available School Fund** receives distributions from the Permanent School Fund based on total return of investment assets, allocations of motor fuel taxes, and appropriations made by the Legislature. The fund is to be used for the support of public schools.

The **Texas Mobility Fund** accounts for the construction, reconstruction, acquisition, and expansion of state highways, including costs of design and acquisition of right of way. It provides payment of a portion of the costs of construction, publicly owned toll roads, and other public transportation projects. It is financed primarily from the sale of obligations of the state, appropriations made by the legislature of revenue, including taxes, other money not otherwise dedicated by the construction, and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to this fund.



**State of Texas**  
**Combining Balance Sheet – Nonmajor Special Revenue Funds**  
August 31, 2006 (Amounts in Thousands)

	<b>Economic Stabilization Fund*</b>	<b>Student Loan Funds</b>	<b>Water Development Funds</b>	<b>System Benefit Fund</b>	<b>Available School Fund**</b>	<b>Texas Mobility Fund</b>	<b>Other Nonmajor Special Revenue Funds***</b>	<b>Totals</b>
<b>ASSETS</b>								
Cash and Cash Equivalents	\$	\$	\$ 79,051	\$256,391	\$ 51,753	\$535,795	\$103,985	\$1,026,975
Short Term Investments			27,583				18,274	45,857
Receivables:								
Accounts			373				1,419	1,792
Federal		119					1,271	1,390
Interest and Dividends		15,692	693		759		241	17,385
Due From Other Funds		295			62,586		6,718	69,599
Inventories							555	555
Investments							10,061	10,061
Loans and Contracts			177,133				40,000	217,133
Other Assets							8,035	8,035
Restricted:								
Cash and Cash Equivalents		131,404					2,380	133,784
Receivables		1						1
Loans and Contracts		590,444						590,444
Other Assets		109,314						109,314
<b>Total Assets</b>	<b>\$ 0</b>	<b>\$847,269</b>	<b>\$284,833</b>	<b>\$256,391</b>	<b>\$115,098</b>	<b>\$535,795</b>	<b>\$192,939</b>	<b>\$2,232,325</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Payables:								
Accounts	\$	\$ 64	\$ 1,944	\$ 212	\$ 10,794	\$ 956	\$ 6,081	\$ 20,051
Payroll							6,758	6,758
Federal		65						65
Interest						26,777		26,777
Due To Other Funds			394			197,883	6,239	204,516
Deferred Revenues							747	747
Other Liabilities							2,807	2,807
<b>Total Liabilities</b>	<b>0</b>	<b>129</b>	<b>2,338</b>	<b>212</b>	<b>10,794</b>	<b>225,616</b>	<b>22,632</b>	<b>261,721</b>
Fund Balances:								
Reserved for:								
Encumbrances			20,172	88			6,730	26,990
Inventories							555	555
Imprest Accounts							10	10
Loans and Contracts		590,444	177,133				40,000	807,577
Unreserved:								
Designated for:								
General Government							51,407	51,407
Regulatory Services				256,091			15,428	271,519
Health and Human Services							13,208	13,208
Natural Resources and Recreation			85,190				24,146	109,336
Education		256,696			104,304		6,774	367,774
Transportation						310,179	723	310,902
Public Safety and Corrections							11,009	11,009
Employee Benefits							94	94
Teacher Retirement Benefits							223	223
<b>Total Fund Balances</b>	<b>0</b>	<b>847,140</b>	<b>282,495</b>	<b>256,179</b>	<b>104,304</b>	<b>310,179</b>	<b>170,307</b>	<b>1,970,604</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 0</b>	<b>\$847,269</b>	<b>\$284,833</b>	<b>\$256,391</b>	<b>\$115,098</b>	<b>\$535,795</b>	<b>\$192,939</b>	<b>\$2,232,325</b>

\* This fund has activity on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds.

\*\* The Available School Fund was previously reported within the Other Nonmajor Special Revenue Funds column.

\*\*\* Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Nonmajor Special Revenue Funds column. The State Textbook Fund from the prior year is now reported in the Other Nonmajor Special Revenue Funds column also. These Funds do not meet the materiality threshold for separate column presentation.



**State of Texas**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Nonmajor Special Revenue Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Economic Stabilization Fund*	Student Loan Funds	Water Development Funds	System Benefit Fund	Available School Fund**	Texas Mobility Fund	Other Nonmajor Special Revenue Funds***	Totals
<b>REVENUES</b>								
Federal	\$	\$ 465	\$ 11,494	\$	\$	\$	\$ 9,820	\$ 21,779
Licenses, Fees, and Permits			66	140,253		84,288	127,764	352,371
Interest and Other Investment Income		17,842	11,104	7,398	11,562	48,332	9,058	105,296
Land Income							1,120	1,120
Settlement of Claims							69	69
Sales of Goods and Services			223				5,301	5,524
Other		3,562	3,771				47,481	54,814
Total Revenues	0	21,869	26,658	147,651	11,562	132,620	200,613	540,973
<b>EXPENDITURES</b>								
Current:								
General Government							160,707	160,707
Education		91,353			1,569,296		(94,496)	1,566,153
Employee Benefits							12,077	12,077
Teacher Retirement Benefits							24	24
Health and Human Services							19,577	19,577
Public Safety and Corrections							66,743	66,743
Transportation						501	2,679	3,180
Natural Resources and Recreation			30,630				23,066	53,696
Regulatory Services				2,285			9,660	11,945
Capital Outlay			16				9,904	9,920
Debt Service:								
Principal						24,485	32	24,517
Interest						54,691		54,691
Other Financing Fees		841				274		1,115
Total Expenditures	0	92,194	30,646	2,285	1,569,296	79,951	209,973	1,984,345
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	0	(70,325)	(3,988)	145,366	(1,557,734)	52,669	(9,360)	(1,443,372)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfer In		72,281	7,216		1,576,051		152,291	1,807,839
Transfer Out		(160,853)	(10,389)		(19,923)	(1,300,757)	(8,301)	(1,500,223)
Bonds and Notes Issued			184			750,000		750,184
Bonds Issued for Advance Refunding		72,005						72,005
Sale of Capital Assets							3	3
Increase in Obligations Under Capital Leases							31	31
Insurance Recoveries							78	78
Total Other Financing Sources (Uses)	0	(16,567)	(2,989)	0	1,556,128	(550,757)	144,102	1,129,917
Net Change in Fund Balances	0	(86,892)	(6,977)	145,366	(1,606)	(498,088)	134,742	(313,455)
Fund Balances, September 1, 2005	3,363	934,032	289,472	110,813	105,910	808,267	35,357	2,287,214
Restatements	(3,363)						208	(3,155)
Fund Balances, September 1, 2005, as Restated	0	934,032	289,472	110,813	105,910	808,267	35,565	2,284,059
Fund Balances, August 31, 2006	\$ 0	\$847,140	\$282,495	\$256,179	\$ 104,304	\$ 310,179	\$170,307	\$1,970,604

\* The Economic Stabilization Fund is now reported within the General column on the Balance Sheet - Governmental Funds. The fund is only being presented here to report Beginning Fund Balances and a restatement of those beginning balances.

\*\* The Available School Fund was previously reported within the Other Nonmajor Special Revenue Funds column.

\*\*\* Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Nonmajor Special Revenue Funds column. The State Textbook Fund from the prior year is now reported in the Other Nonmajor Special Revenue Funds column also. These funds do not meet the materiality threshold for separate column presentation.

**State of Texas**  
**Budgetary Comparison Schedule**  
**Nonmajor Special Revenue Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Student Loan Funds				Water Development Funds			
			Actual	Final To Actual Variance			Actual	Final To Actual Variance
	Budgetary Amounts		Budgetary		Budgetary Amounts		Budgetary	
	Original	Final	Basis		Original	Final	Basis	
REVENUES								
Federal	\$	\$	\$ 466	\$ 466	\$ 22,353	\$ 33,809	\$ 11,528	\$ (22,281)
Licenses, Fees, and Permits							66	66
Interest and Other Investment Income	700	700	18,060	17,360	13,272	13,435	11,105	(2,330)
Land Income								
Settlement of Claims								
Sales of Goods and Services					174	259	71	(188)
Other			3,560	3,560			3,771	3,771
Total Revenues	700	700	22,086	21,386	35,799	47,503	26,541	(20,962)
EXPENDITURES								
General Government								
Education		156,314	91,428	64,886				
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation					11,950	24,031	30,853	(6,822)
Regulatory Services								
Total Expenditures	0	156,314	91,428	64,886	11,950	24,031	30,853	(6,822)
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	700	(155,614)	(69,342)	86,272	23,849	23,472	(4,312)	(27,784)
OTHER FINANCING SOURCES (USES)								
Transfer In			72,281	72,281		9,536	7,216	(2,320)
Transfer Out			(160,853)	(160,853)			(10,389)	(10,389)
Bond Proceeds								
Sale of Capital Assets								
Insurance Recoveries								
Available Beginning Balances	160,407	160,407	160,407		257,158	257,158	257,158	
Total Other Financing Sources (Uses)	160,407	160,407	71,835	(88,572)	257,158	266,694	253,985	(12,709)
Excess (Deficiency) of Revenues and Other								
Financing Sources Over (Under) Expenditures								
and Other Financing Uses	\$ 161,107	\$ 4,793	\$ 2,493	\$ (2,300)	\$ 281,007	\$ 290,166	\$ 249,673	\$ (40,493)

System Benefit Fund				Available School Fund			
Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
Original	Final			Original	Final		
\$ 133,883	\$ 133,883	\$ 140,253	\$ 6,370	\$	\$	\$	\$
197	197	7,398	7,201	4,653	4,136	11,277	7,141
134,080	134,080	147,651	13,571	4,653	4,136	11,277	7,141
	31		31				
				1,580,600	1,580,600	1,558,503	22,097
3,626	3,911	2,072	1,839				
3,626	3,942	2,072	1,870	1,580,600	1,580,600	1,558,503	22,097
130,454	130,138	145,579	15,441	(1,575,947)	(1,576,464)	(1,547,226)	29,238
				1,595,801	1,564,621	1,576,051	11,430
				(326,009)	(16,409)	(19,923)	(3,514)
118,782	118,782	118,782		43,196	43,196	43,196	
118,782	118,782	118,782	0	1,312,988	1,591,408	1,599,324	7,916
\$ 249,236	\$ 248,920	\$ 264,361	\$ 15,441	\$ (262,959)	\$ 14,944	\$ 52,098	\$ 37,154

Concluded on the following page

**State of Texas**  
**Budgetary Comparison Schedule**  
**Nonmajor Special Revenue Funds (concluded)**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Texas Mobility Fund				Other Nonmajor Special Revenue Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Federal	\$	\$	\$	\$	\$ 12,271	\$ 12,271	\$ 8,924	\$ (3,347)
Licenses, Fees, and Permits	236,501	83,446	84,288	842	39,796	72,964	69,028	(3,936)
Interest and Other Investment Income	6,622	6,622	48,332	41,710	519	2,354	6,465	4,111
Land Income								
Settlement of Claims								
Sales of Goods and Services					45,825	52,526	2,825	(49,701)
Other		196,513		(196,513)		155		(155)
Total Revenues	243,123	286,581	132,620	(153,961)	98,411	140,270	87,242	(53,028)
EXPENDITURES								
General Government					409,952	174,041	105,921	68,120
Education					22,608	24,770	22,742	2,028
Employee Benefits					473,755	12,043	12,038	5
Health and Human Services					33,113	33,574	20,065	13,509
Public Safety and Corrections					15,885	16,015	2,418	13,597
Transportation	938,285	1,736,205	(456)	1,736,661				
Natural Resources and Recreation					16,514	30,990	37,991	(7,001)
Regulatory Services						6,331	17,055	(10,724)
Total Expenditures	938,285	1,736,205	(456)	1,736,661	971,827	297,764	218,230	79,534
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	(695,162)	(1,449,624)	133,076	1,582,700	(873,416)	(157,494)	(130,988)	26,506
OTHER FINANCING SOURCES (USES)								
Transfer In					333,309	23,717	87,807	64,090
Transfer Out			(1,300,757)	(1,300,757)			(5,207)	(5,207)
Bond Proceeds*	750,000	750,000	750,000					
Sale of Capital Assets							3	3
Insurance Recoveries							78	78
Available Beginning Balances	832,750	832,750	832,750		73,476	73,476	73,476	
Total Other Financing Sources (Uses)	1,582,750	1,582,750	281,993	(1,300,757)	406,785	97,193	156,157	58,964
Excess (Deficiency) of Revenues and								
Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	\$ 887,588	\$ 133,126	\$ 415,069	\$ 281,943	\$ (466,631)	\$ (60,301)	\$ 25,169	\$ 85,470

\* The Texas Mobility Fund received \$750 million in Bond Proceeds. These are authorized by Article 3, Section 49-n of the Texas Constitution and Section 222.003 of the Texas Transportation Code.

## NONMAJOR DEBT SERVICE FUNDS

---

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan Fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Student Loan Revenue Bond Fund** receives proceeds from the sale of revenue bonds and gifts or grants made to the Texas Higher Education Coordinating Board. Loans may be made from the fund to students qualifying for a loan under Subchapter C, Chapter 52.

The **Texas Military Facilities Commission Refund and Improvement Bond Fund** provides for the payment of principal and interest on the Commission's outstanding revenue bonds. The fund is composed of an Interest and Sinking Fund and a Reserve Fund.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply, and sewer services.

The **Texas Park Development Bond Interest and Sinking Fund** receives net receipts from entrance or gate fees and investment receipts. It is used exclusively for the purpose of paying principal of, and interest on, the bonds as they mature and also exchange and collection charges in connection therewith.

**State of Texas**  
**Combining Balance Sheet – Nonmajor Debt Service Funds**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Texas College Student Loan Bonds Interest and Sinking Fund</b>	<b>Texas Public Finance Authority Revenue Bond Funds</b>	<b>Student Loan Revenue Bond Fund</b>	<b>Texas Military Facilities Commission Refund and Improvement Bond Fund*</b>	<b>Texas Public Finance Authority G.O. Bond Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$	\$ 1,438	\$	\$	\$ 419
Receivables:					
Federal	172		2		
Interest and Dividends	1,496		13		
Due From Other Funds		31			
Investments		24,401			
Restricted:					
Cash and Cash Equivalents	<u>116,624</u>	<u></u>	<u>2,156</u>	<u></u>	<u></u>
Total Assets	<u>\$ 118,292</u>	<u>\$ 25,870</u>	<u>\$ 2,171</u>	<u>\$ 0</u>	<u>\$ 419</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 512	\$	\$	\$	\$ 5
Due To Other Funds		31			
Total Liabilities	<u>512</u>	<u>31</u>	<u>0</u>	<u>0</u>	<u>5</u>
Fund Balances:					
Reserved for Debt Service	<u>117,780</u>	<u>25,839</u>	<u>2,171</u>	<u></u>	<u>414</u>
Total Fund Balances	<u>117,780</u>	<u>25,839</u>	<u>2,171</u>	<u>0</u>	<u>414</u>
Total Liabilities and Fund Balances	<u>\$ 118,292</u>	<u>\$ 25,870</u>	<u>\$ 2,171</u>	<u>\$ 0</u>	<u>\$ 419</u>

\* These funds have activity on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds.

<b>Texas Public Finance Authority Commercial Paper Funds</b>	<b>Texas Water Development Board Bond Funds</b>	<b>Texas Park Development Bond Interest and Sinking Fund</b>	<b>Other Nonmajor Debt Service Funds*</b>	<b>Totals</b>
\$ 4,195	\$ 26	\$ 17	\$	\$ 6,095
				174
				1,509
				31
				24,401
				118,780
<u>\$ 4,195</u>	<u>\$ 26</u>	<u>\$ 17</u>	<u>\$ 0</u>	<u>\$ 150,990</u>
\$	\$	\$	\$	\$ 517
				31
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>548</u>
4,195	26	17		150,442
<u>4,195</u>	<u>26</u>	<u>17</u>	<u>0</u>	<u>150,442</u>
<u>\$ 4,195</u>	<u>\$ 26</u>	<u>\$ 17</u>	<u>\$ 0</u>	<u>\$ 150,990</u>

**State of Texas**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Nonmajor Debt Service Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
<b>REVENUES</b>					
Federal	\$ 750	\$	\$ (53)	\$	\$
Interest and Other Investment Income	13,261	3,234	64		166
Other					
Total Revenues	<u>14,011</u>	<u>3,234</u>	<u>11</u>	<u>0</u>	<u>166</u>
<b>EXPENDITURES</b>					
Current:					
General Government					232
Education			463		
Natural Resources and Recreation					
Debt Service:					
Principal	31,400	83,911	450	1,695	187,760
Interest	25,758	24,837	5	923	98,989
Total Expenditures	<u>57,158</u>	<u>108,748</u>	<u>918</u>	<u>2,618</u>	<u>286,981</u>
(Deficiency) of Revenues					
(Under) Expenditures	<u>(43,147)</u>	<u>(105,514)</u>	<u>(907)</u>	<u>(2,618)</u>	<u>(286,815)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	159,192	81,194	1,661	2,617	286,780
Transfer Out	(85,581)	(22)	(2)		(9)
Payment to Escrow for Advance Refunding	(72,005)				
Sale of Capital Assets					282
Total Other Financing Sources (Uses)	<u>1,606</u>	<u>81,172</u>	<u>1,659</u>	<u>2,617</u>	<u>287,053</u>
Net Change in Fund Balances	<u>(41,541)</u>	<u>(24,342)</u>	<u>752</u>	<u>(1)</u>	<u>238</u>
Fund Balances, September 1, 2005	<u>159,321</u>	<u>50,181</u>	<u>1,419</u>	<u>1</u>	<u>176</u>
Fund Balances, August 31, 2006	<u>\$ 117,780</u>	<u>\$ 25,839</u>	<u>\$ 2,171</u>	<u>\$ 0</u>	<u>\$ 414</u>



<b>Texas Public Finance Authority Commercial Paper Funds</b>	<b>Texas Water Development Board Bond Funds</b>	<b>Texas Park Development Bond Interest and Sinking Fund</b>	<b>Other Nonmajor Debt Service Funds</b>	<b>Totals</b>
\$ 52	\$ 34	\$ 3	\$	\$ 697
				16,814
			2,061	2,061
<u>52</u>	<u>34</u>	<u>3</u>	<u>2,061</u>	<u>19,572</u>
				232
				463
	5			5
17,000	9,625	4,500		336,341
2,578	16,783	1,064	2,061	172,998
<u>19,578</u>	<u>26,413</u>	<u>5,564</u>	<u>2,061</u>	<u>510,039</u>
(19,526)	(26,379)	(5,561)	0	(490,467)
21,673	26,386	5,578		585,081
				(85,614)
				(72,005)
				282
<u>21,673</u>	<u>26,386</u>	<u>5,578</u>	<u>0</u>	<u>427,744</u>
2,147	7	17	0	(62,723)
2,048	19			213,165
<u>\$ 4,195</u>	<u>\$ 26</u>	<u>\$ 17</u>	<u>\$ 0</u>	<u>\$ 150,442</u>



## NONMAJOR CAPITAL PROJECTS FUNDS

---

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair, or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Building and Procurement Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair, and remodeling for certain mental health facilities and other health related projects.

The **Texas Military Facilities Commission Project Fund** is used to finance renovation and construction of new armories.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of court houses.

**State of Texas**  
**Combining Balance Sheet – Nonmajor Capital Projects Funds**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Texas Public Finance Authority Administration Project Funds</b>	<b>Texas Parks and Wildlife Department Project Funds</b>	<b>Texas Building and Procurement Commission Project Funds</b>	<b>Texas Department of Criminal Justice Prison Project Funds</b>	<b>Texas Youth Commission Project Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 7,700	\$ 9,915	\$ 11,789	\$ 8,881	\$ 3,006
Short Term Investments					
Receivables:					
Accounts			902		
Interest and Dividends		9			
Due From Other Funds			4,976		342
Interfund Receivables	9				
Inventories	1				
<b>Total Assets</b>	<b>\$ 7,710</b>	<b>\$ 9,924</b>	<b>\$ 17,667</b>	<b>\$ 8,881</b>	<b>\$ 3,348</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts Payable	\$ 139	\$ 326	\$ 1,147	\$ 1,212	\$ 40
Due To Other Funds		178	11		
Interfund Payable	3				
Other Liabilities				226	
<b>Total Liabilities</b>	<b>142</b>	<b>504</b>	<b>1,158</b>	<b>1,438</b>	<b>40</b>
Fund Balances/(Deficits):					
Reserved for:					
Encumbrances		3,706	10,547	21,749	2,254
Inventories	1				
Capital Projects	7,566	2,713	5,332	(14,306)	1,054
Unreserved:					
Designated for:					
Public Safety and Corrections					
Undesignated	1	3,001	630		
<b>Total Fund Balances</b>	<b>7,568</b>	<b>9,420</b>	<b>16,509</b>	<b>7,443</b>	<b>3,308</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,710</b>	<b>\$ 9,924</b>	<b>\$ 17,667</b>	<b>\$ 8,881</b>	<b>\$ 3,348</b>

\* The Texas Mental Health and Mental Retardation Project Funds were combined with other Health Project Funds which were previously reported in the Other Nonmajor Capital Projects Funds column. These funds were moved to the Texas Health Agencies Project Funds column.

\*\* The Texas Historical Commission Project Funds were previously reported within the Other Nonmajor Capital Projects Funds column.

\*\*\* The Adjutant General's Department Project Funds were reallocated to the Other Nonmajor Capital Projects Funds column.

<b>Texas Health Agencies Project Funds*</b>	<b>Texas Military Facilities Commission Project Fund</b>	<b>Texas Department of Transportation Project Funds</b>	<b>Texas Historical Commission Project Funds **</b>	<b>Other Nonmajor Capital Projects Funds***</b>	<b>Totals</b>
\$ 10,940	\$ 1,863 1,037	\$ 3,328	\$ 23,290	\$ 10,588	\$ 91,300 1,037
484	71				1,457
1,377	42				9
	83				6,737
					9
					84
<u>\$ 12,801</u>	<u>\$ 3,096</u>	<u>\$ 3,328</u>	<u>\$ 23,290</u>	<u>\$ 10,588</u>	<u>\$ 100,633</u>
\$ 6,666 15 3,309	\$ 223 11	\$ 684	\$ 1,191	\$ 334	\$ 11,962 215 3,312 226
<u>9,990</u>	<u>234</u>	<u>684</u>	<u>1,191</u>	<u>334</u>	<u>15,715</u>
2,506	594 83		21,290	694	63,340 84
1,348		2,644	742	7,459	14,552
	2,185				2,185
(1,043)			67	2,101	4,757
<u>2,811</u>	<u>2,862</u>	<u>2,644</u>	<u>22,099</u>	<u>10,254</u>	<u>84,918</u>
<u>\$ 12,801</u>	<u>\$ 3,096</u>	<u>\$ 3,328</u>	<u>\$ 23,290</u>	<u>\$ 10,588</u>	<u>\$ 100,633</u>

**State of Texas**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Nonmajor Capital Projects Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
<b>REVENUES</b>					
Federal	\$	\$	\$	\$	\$ 1,618
Interest and Other Investment Income	334	641	530	664	90
Land Income					
Settlement of Claims			20		
Sales of Goods and Services			5,467		
Other	6		9		
Total Revenues	<u>340</u>	<u>641</u>	<u>6,026</u>	<u>664</u>	<u>1,708</u>
<b>EXPENDITURES</b>					
Current:					
General Government	39,115		4,187		
Education					
Health and Human Services					
Public Safety and Corrections				8,998	3
Transportation					
Natural Resources and Recreation		1,644			
Capital Outlay	24	9,760	5,122	17,327	5,185
Debt Service:					
Principal			26,912		
Total Expenditures	<u>39,139</u>	<u>11,404</u>	<u>36,221</u>	<u>26,325</u>	<u>5,188</u>
(Deficiency) of Revenues					
(Under) Expenditures	<u>(38,799)</u>	<u>(10,763)</u>	<u>(30,195)</u>	<u>(25,661)</u>	<u>(3,480)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	574	18			300
Transfer Out	(6,375)	(171)	(29)		(50)
Bonds and Notes Issued	45,000	1,000	5,000	13,000	3,500
Insurance Recoveries	133				
Total Other Financing Sources (Uses)	<u>39,332</u>	<u>847</u>	<u>4,971</u>	<u>13,000</u>	<u>3,750</u>
Net Change in Fund Balances	<u>533</u>	<u>(9,916)</u>	<u>(25,224)</u>	<u>(12,661)</u>	<u>270</u>
Fund Balances, September 1, 2005	7,035	19,336	41,733	20,104	3,038
Restatements					
Fund Balances, September 1, 2005, as Restated	<u>7,035</u>	<u>19,336</u>	<u>41,733</u>	<u>20,104</u>	<u>3,038</u>
Fund Balances, August 31, 2006	<u>\$ 7,568</u>	<u>\$ 9,420</u>	<u>\$ 16,509</u>	<u>\$ 7,443</u>	<u>\$ 3,308</u>

\* The Texas Mental Health and Mental Retardation Project Funds were combined with other Health Project Funds which were previously reported in the Other Nonmajor Capital Projects Funds column. These funds were moved to the Texas Health Agencies Project Funds column.

\*\* The Texas Historical Commission Project Funds were previously reported within the Other Nonmajor Capital Projects Funds column.

\*\*\* The Adjutant General's Department Project Funds were reallocated to the Other Nonmajor Capital Projects Funds column.

<b>Texas Health Agencies Project Funds*</b>	<b>Texas Military Facilities Commission Project Fund</b>	<b>Texas Department of Transportation Project Funds</b>	<b>Texas Historical Commission Project Funds**</b>	<b>Other Nonmajor Capital Projects Funds***</b>	<b>Totals</b>
\$ 525	\$ 24	\$ 570	\$ 1,273	\$ 194	\$ 1,642
(56)	292				5,113
					(56)
	1,514				20
5					6,981
474	1,830	570	1,273	194	20
					13,720
			15,564		58,866
				2,133	2,133
13,440					13,440
	191			52	9,244
		19,842			19,842
					1,644
4,620	7,840			656	50,534
					26,912
18,060	8,031	19,842	15,564	2,841	182,615
(17,586)	(6,201)	(19,272)	(14,291)	(2,647)	(168,895)
128	76				1,096
(2,064)		(82)			(8,771)
11,700				11,000	90,200
					133
9,764	76	(82)	0	11,000	82,658
(7,822)	(6,125)	(19,354)	(14,291)	8,353	(86,237)
(69)	8,987	21,998	36,390	1,901	160,453
10,702					10,702
10,633	8,987	21,998	36,390	1,901	171,155
\$ 2,811	\$ 2,862	\$ 2,644	\$ 22,099	\$ 10,254	\$ 84,918





## NONMAJOR PERMANENT FUNDS

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The **Permanent Health Fund for Higher Education** is a permanent fund established by the legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account has been designated by the legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education, and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches \$2 billion, and each year thereafter, 10 percent of the interest, dividends, and other income accruing from investments during the previous

fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the constitution.

The **Texas Commission on the Arts Trust Fund** consists of the Texas Cultural Endowment Fund account held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development, and advance the well being of communities.

**State of Texas**  
**Combining Balance Sheet – Nonmajor Permanent Funds**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Permanent Health Fund for Higher Education</b>	<b>Permanent Higher Education Fund</b>	<b>Texas Commission on the Arts Trust Fund</b>	<b>Other Nonmajor Permanent Funds</b>	<b>Totals</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$	\$	\$	\$	\$
Short Term Investments	7,888	7,714	36	302	15,602
Securities Lending Collateral	24,897	24,731			49,628
Receivables:					
Investment Trades	831	801			1,632
Interest and Dividends	1,276	1,259		1	2,536
Investments	549,938	534,340	13,665	2,556	1,100,499
Total Assets	<u>\$ 584,830</u>	<u>\$ 568,845</u>	<u>\$ 13,701</u>	<u>\$ 2,859</u>	<u>\$1,170,235</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables:					
Accounts	\$ 143	\$ 138	\$	\$ 2	\$ 283
Investment Trades	1,770	1,720			3,490
Obligations/Securities Lending	24,897	24,731			49,628
Total Liabilities	<u>26,810</u>	<u>26,589</u>	<u>0</u>	<u>2</u>	<u>53,401</u>
Fund Balances:					
Reserved for:					
Education		542,256			542,256
Unreserved:					
Designated for:					
Permanent Health Fund	558,020			2,500	560,520
Undesignated			13,701	357	14,058
Total Fund Balances	<u>558,020</u>	<u>542,256</u>	<u>13,701</u>	<u>2,857</u>	<u>1,116,834</u>
Total Liabilities and Fund Balances	<u>\$ 584,830</u>	<u>\$ 568,845</u>	<u>\$ 13,701</u>	<u>\$ 2,859</u>	<u>\$1,170,235</u>

**State of Texas**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – Nonmajor Permanent Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
<b>REVENUES</b>					
Interest and Other Investment Income	\$ 52,340	\$ 48,650	\$ 1,310	\$ 168	\$ 102,468
Land Income				21	21
Other			1		1
Total Revenues	<u>52,340</u>	<u>48,650</u>	<u>1,311</u>	<u>189</u>	<u>102,490</u>
<b>EXPENDITURES</b>					
Current:					
General Government	2,594	2,466	97	221	5,378
Natural Resources and Recreation				38	38
Total Expenditures	<u>2,594</u>	<u>2,466</u>	<u>97</u>	<u>259</u>	<u>5,416</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>49,746</u>	<u>46,184</u>	<u>1,214</u>	<u>(70)</u>	<u>97,074</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer Out	(21,404)		(784)	(21)	(22,209)
Total Other Financing Sources (Uses)	<u>(21,404)</u>	<u>0</u>	<u>(784)</u>	<u>(21)</u>	<u>(22,209)</u>
Net Change in Fund Balances	<u>28,342</u>	<u>46,184</u>	<u>430</u>	<u>(91)</u>	<u>74,865</u>
Fund Balances, September 1, 2005	<u>529,678</u>	<u>496,072</u>	<u>13,271</u>	<u>2,948</u>	<u>1,041,969</u>
Fund Balances, August 31, 2006	<u>\$ 558,020</u>	<u>\$ 542,256</u>	<u>\$ 13,701</u>	<u>\$ 2,857</u>	<u>\$1,116,834</u>



STATE *of* TEXAS



ENTERPRISE  
FUNDS



WINDSWEPT PLAINS  
NORTH TEXAS

## NONMAJOR ENTERPRISE FUNDS

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The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the Treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation Fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate, and service loans from land, housing, and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the Institutional Division's commissary operations and other miscellaneous revenue.

The **Teacher Retirement System** includes the TRS-ActiveCare Fund which provides health care coverage to employees (and their dependents) of participating public education entities.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

**State of Texas**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Texas Workforce Commission Unemployment Trust Fund Accounts</b>	<b>Texas Department of Housing and Community Affairs</b>	<b>Texas Lottery Commission</b>	<b>Veterans Land Board Loan Program Funds</b>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 404	\$ 36,378	\$ 126,308	\$ 76,841
Securities Lending Collateral				
Restricted:				
Cash and Cash Equivalents	2,236,536	125,162		100,415
Short Term Investments		83,339	173,688	27,307
Loans and Contracts		10,584		62,417
Receivables:				
Federal	3,170			3,369
Accounts	197,166	1,114	19,626	11,347
Interest and Dividends	16,755	18,603		10,700
Investment Trades				
Other		71		
Due From Other Funds	2,698		1,369	
Inventories		15	6,020	94
Prepaid Items			7,778	
Loans and Contracts		1,173		
Other Current Assets		128		
Total Current Assets	<u>2,456,729</u>	<u>276,567</u>	<u>334,789</u>	<u>292,490</u>
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,173,278	1,101,610	335,615
Receivables				
Loans and Contracts		1,148,072		1,886,538
Other				3,072
Loans and Contracts		23,423		
Capital Assets:				
Non-Depreciable				13,786
Depreciable		1,558	5,517	65,443
Accumulated Depreciation		(1,289)	(4,766)	(11,703)
Assets Held in Trust				
Other Non-Current Assets	1,903	11,536		
Total Non-Current Assets	<u>1,903</u>	<u>2,356,578</u>	<u>1,102,361</u>	<u>2,292,751</u>
Total Assets	<u>2,458,632</u>	<u>2,633,145</u>	<u>1,437,150</u>	<u>2,585,241</u>



Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
\$	\$ 437,706	\$ 8,265 286,977	\$ 16,173	\$ 625,234 363,818
		51,157		2,513,270
				284,334
				73,001
				6,539
1,152	33,091		195	263,691
	1,934	9,803	141	57,936
		107,342		107,342
			1,519	1,590
36,657				40,724
6,081			916	13,126
			181	7,959
		72,090	12,371	85,634
				128
<u>43,890</u>	<u>472,731</u>	<u>535,634</u>	<u>31,496</u>	<u>4,444,326</u>
			5,530	5,530
		1,651,172	40	4,261,715
		203,487		203,487
				3,034,610
				3,072
				23,423
283			409	14,478
4,244		2,427	4,925	84,114
(3,564)		(2,376)	(2,891)	(26,589)
			3,755	3,755
				13,439
<u>963</u>	<u>0</u>	<u>1,854,710</u>	<u>11,768</u>	<u>7,621,034</u>
<u>44,853</u>	<u>472,731</u>	<u>2,390,344</u>	<u>43,264</u>	<u>12,065,360</u>

Concluded on the following page

**State of Texas**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds (concluded)**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Texas Workforce Commission Unemployment Trust Fund Accounts</b>	<b>Texas Department of Housing and Community Affairs</b>	<b>Texas Lottery Commission</b>	<b>Veterans Land Board Loan Program Funds</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Payables:				
Accounts	\$ 68,677	\$ 912	\$ 26,995	\$ 7,842
Payroll			1,449	
Investment Trades				
Interest	3,841	32,977		12,179
Due To Other Funds			15,294	1,204
Interfund Payable		36		
Deferred Revenue	39,714	27,984		128
Obligations/Securities Lending				76,841
Capital Lease Obligations				
Employees' Compensable Leave		491	1,112	
Notes and Loans Payable				
General Obligation Bonds Payable				57,994
Revenue Bonds Payable	188,292	33,840		310
Liabilities Payable From Restricted Assets			242,322	
Other Current Liabilities		7,681	11,720	766
Total Current Liabilities	<u>300,524</u>	<u>103,921</u>	<u>298,892</u>	<u>157,264</u>
Non-Current Liabilities:				
Capital Lease Obligations				
Employees' Compensable Leave		121	639	
Liabilities Payable From Restricted Assets			1,105,372	
General Obligation Bonds Payable				1,730,353
Revenue Bonds Payable	534,684	2,294,309		24,598
Assets Held for Others				
Other Non-Current Liabilities		171,844		
Total Non-Current Liabilities	<u>534,684</u>	<u>2,466,274</u>	<u>1,106,011</u>	<u>1,754,951</u>
Total Liabilities	<u>835,208</u>	<u>2,570,195</u>	<u>1,404,903</u>	<u>1,912,215</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt		213	751	43,541
Restricted for:				
Debt Retirement	192,909	61,632		
Veterans Land Board Housing Programs				629,302
Unemployment Trust Funds	2,151,588			
Other			18,837	
Unrestricted	<u>(721,073)</u>	<u>1,105</u>	<u>12,659</u>	<u>183</u>
Total Net Assets	<u>\$ 1,623,424</u>	<u>\$ 62,950</u>	<u>\$ 32,247</u>	<u>\$ 673,026</u>

<b>Texas Department of Criminal Justice Institutional Division</b>	<b>Teacher Retirement System</b>	<b>Texas Prepaid Higher Education Tuition Board</b>	<b>Other Nonmajor Enterprise Funds</b>	<b>Totals</b>
\$ 5,118	\$ 93,453	\$ 1,589	\$ 2,197	\$ 206,783
1,301			646	3,396
		115,141		115,141
				48,997
		107	35	16,640
				36
			22	67,848
		286,977		363,818
			114	114
919	80	29	251	2,882
			13,000	13,000
				57,994
				222,442
		168,525		410,847
				20,167
<u>7,338</u>	<u>93,533</u>	<u>572,368</u>	<u>16,265</u>	<u>1,550,105</u>
			445	445
352		13	426	1,551
		1,928,300		3,033,672
				1,730,353
				2,853,591
			3,755	3,755
				171,844
<u>352</u>	<u>0</u>	<u>1,928,313</u>	<u>4,626</u>	<u>7,795,211</u>
7,690	93,533	2,500,681	20,891	9,345,316
963		51	450	45,969
				254,541
				629,302
				2,151,588
			652	19,489
<u>36,200</u>	<u>379,198</u>	<u>(110,388)</u>	<u>21,271</u>	<u>(380,845)</u>
<u>\$ 37,163</u>	<u>\$ 379,198</u>	<u>\$ (110,337)</u>	<u>\$ 22,373</u>	<u>\$ 2,720,044</u>

**State of Texas**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	<b>Texas Workforce Commission Unemployment Trust Fund Accounts</b>	<b>Texas Department of Housing and Community Affairs</b>	<b>Texas Lottery Commission</b>	<b>Veterans Land Board Loan Program Funds</b>
<b>OPERATING REVENUES</b>				
Lottery Collections	\$	\$	\$ 3,775,060	\$
Auxiliary Enterprises - Pledged				
Unemployment Taxes	1,862,804			
Other Sales of Goods and Services				6,258
Other Sales of Goods and Services - Pledged				24,236
Interest and Investment Income		87,876		96,295
Federal Revenue	81,390			13,358
Premium Revenue				
Other Revenues	88,142	11,600	1,059	90
Other Revenues - Pledged				
Total Operating Revenues	<u>2,032,336</u>	<u>99,476</u>	<u>3,776,119</u>	<u>140,237</u>
<b>OPERATING EXPENSES</b>				
Cost of Goods Sold				
Salaries and Wages		6,528	13,811	
Payroll Related Costs		1,468	3,346	
Professional Fees and Services		1,560	6,330	39,708
Travel		278	287	24
Materials and Supplies		282	270	2,195
Communication and Utilities		134	594	8
Repairs and Maintenance		211	498	65
Rentals and Leases		412	7,247	
Printing and Reproduction		33	14,883	10
Depreciation and Amortization		1,113	256	3,003
Unemployment Benefit Payments	1,224,820			
Bad Debt Expense		12	790	
Interest Expense		117,490	1	92,052
Lottery Prize Payments			2,502,185	
Employee/Participant Benefit Payments				
Other Expenses		8,134	136,586	5,713
Total Operating Expenses	<u>1,224,820</u>	<u>137,655</u>	<u>2,687,084</u>	<u>142,778</u>
Operating Income (Loss)	<u>807,516</u>	<u>(38,179)</u>	<u>1,089,035</u>	<u>(2,541)</u>

<b>Texas Department of Criminal Justice Institutional Division</b>	<b>Teacher Retirement System</b>	<b>Texas Prepaid Higher Education Tuition Board</b>	<b>Other Nonmajor Enterprise Funds</b>	<b>Totals</b>
\$	\$	\$	\$	\$ 3,775,060
78,310				78,310
				1,862,804
		15,826	7,950	30,034
				24,236
			995	185,166
	861,648			94,748
				861,648
721		1,659	18,024	121,295
			72	72
<u>79,031</u>	<u>861,648</u>	<u>17,485</u>	<u>27,041</u>	<u>7,033,373</u>
56,192			1,631	57,823
12,124	684	896	7,296	41,339
3,675	167	215	1,694	10,565
1	741	6,617	8,254	63,211
42	5	8	43	687
642	7	105	535	4,036
13	1	45	153	948
174		313	254	1,515
684	69	25	1,068	9,505
66	3	40	174	15,209
132		424	463	5,391
				1,224,820
			325	1,127
1				209,544
				2,502,185
	811,452	142,475		953,927
28	4	5,734	2,276	158,475
<u>73,774</u>	<u>813,133</u>	<u>156,897</u>	<u>24,166</u>	<u>5,260,307</u>
<u>5,257</u>	<u>48,515</u>	<u>(139,412)</u>	<u>2,875</u>	<u>1,773,066</u>

*Concluded on the following page*

**State of Texas**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds** (concluded)  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Federal Revenue	\$	\$	\$	\$ 6,738
Gifts				5
Interest and Investment Income (Loss)	78,804		(58,675)	15,949
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense	(27,085)			(937)
Borrower Rebates and Agent Fees				(1,370)
Gain on Sale of Capital Assets		16		
Claims and Judgments				
Other Revenues			29	134
Other Expenses	(1,526)			(134)
Total Nonoperating Revenues (Expenses)	50,193	16	(58,646)	20,385
Income (Loss) Before Transfers	857,709	(38,163)	1,030,389	17,844
<b>TRANSFERS</b>				
Transfer In	1,066	12,097		8
Transfer Out	(948)		(1,090,333)	(21,739)
Total Transfers	118	12,097	(1,090,333)	(21,731)
Change in Net Assets	857,827	(26,066)	(59,944)	(3,887)
Net Assets, September 1, 2005	765,597	89,016	92,193	676,913
Restatements			(2)	
Net Assets, September 1, 2005, as Restated	765,597	89,016	92,191	676,913
Net Assets, August 31, 2006	\$ 1,623,424	\$ 62,950	\$ 32,247	\$ 673,026

<b>Texas Department of Criminal Justice Institutional Division</b>	<b>Teacher Retirement System</b>	<b>Texas Prepaid Higher Education Tuition Board</b>	<b>Other Nonmajor Enterprise Funds</b>	<b>Totals</b>
\$	\$	\$	\$ 18	\$ 6,756
	18,650	136,314	837	191,879
		13,044		13,044
		(8)		(8)
			(675)	(28,697)
		(12,531)		(13,901)
				16
			(4)	(4)
	41		13	217
				(1,660)
<u>0</u>	<u>18,691</u>	<u>136,819</u>	<u>189</u>	<u>167,647</u>
<u>5,257</u>	<u>67,206</u>	<u>(2,593)</u>	<u>3,064</u>	<u>1,940,713</u>
4,395			1,932	19,498
(3,740)			(1,418)	(1,118,178)
<u>655</u>	<u>0</u>	<u>0</u>	<u>514</u>	<u>(1,098,680)</u>
<u>5,912</u>	<u>67,206</u>	<u>(2,593)</u>	<u>3,578</u>	<u>842,033</u>
31,251	311,992	(107,744)	18,794	1,878,012
			1	(1)
<u>31,251</u>	<u>311,992</u>	<u>(107,744)</u>	<u>18,795</u>	<u>1,878,011</u>
<u>\$ 37,163</u>	<u>\$ 379,198</u>	<u>\$ (110,337)</u>	<u>\$ 22,373</u>	<u>\$ 2,720,044</u>

**State of Texas**  
**Combining Statement of Cash Flows –**  
**Nonmajor Enterprise Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	<b>Texas Workforce Commission Unemployment Trust Fund Accounts</b>	<b>Texas Department of Housing and Community Affairs</b>	<b>Texas Lottery Commission</b>	<b>Veterans Land Board Loan Program Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 1,919,925	\$	\$ 3,772,279	\$ 39,987
Proceeds from Research Grants and Contracts	82,244			
Proceeds from Loan Programs		84,939		618,024
Proceeds from Other Revenues	95,279	29,071		889
Payments to Suppliers for Goods and Services		(12,419)	(357,254)	(40,427)
Payments to Employees		(7,886)	(16,782)	
Payments for Loans Provided		(181,940)		(593,475)
Payments for Other Expenses	(1,221,145)		(2,319,513)	(4,301)
Net Cash Provided by Operating Activities	<u>876,303</u>	<u>(88,235)</u>	<u>1,078,730</u>	<u>20,697</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Proceeds from Debt Issuance		511,167		166,888
Proceeds from Transfers from Other Funds	3,601,851	12,097		186,425
Proceeds from Other Financing Activities			22,160	
Payments of Principal on Debt Issuance	(310,294)	(349,138)		
Payments of Interest	(28,903)	(109,138)		(192,243)
Payments of Other Costs on Debt Issuance		(2,610)		
Payments for Transfers to Other Funds	(3,601,779)	(39)	(1,086,680)	(210,725)
Payments for Other Uses	(555)		(162,611)	
Net Cash Provided by Noncapital Financing Activities	<u>(339,680)</u>	<u>62,339</u>	<u>(1,227,131)</u>	<u>(49,655)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from Other Financing Activities				7,163
Proceeds of Advances from Other Funds				3,197
Payments for Additions to Capital Assets		(178)	(151)	(9,483)
Payments of Principal on Debt				(1,234)
Net Cash Provided by Capital and Related Financing Activities	<u>0</u>	<u>(178)</u>	<u>(151)</u>	<u>(357)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from Sale of Investments		988,986	162,611	207,702
Proceeds from Interest and Investment Income	73,667	62,628	39	338,317
Payments to Acquire Investments		(1,042,106)	(24,963)	(593,840)
Net Cash Provided by Investing Activities	<u>73,667</u>	<u>9,508</u>	<u>137,687</u>	<u>(47,821)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>610,290</u>	<u>(16,566)</u>	<u>(10,865)</u>	<u>(77,136)</u>
Cash and Cash Equivalents, September 1, 2005	1,626,650	178,106	137,173	177,551
Restatements				
Cash and Cash Equivalents, September 1, 2005, as Restated	<u>1,626,650</u>	<u>178,106</u>	<u>137,173</u>	<u>177,551</u>
Cash and Cash Equivalents, August 31, 2006	<u>\$ 2,236,940</u>	<u>\$ 161,540</u>	<u>\$ 126,308</u>	<u>\$ 100,415</u>



<b>Texas Department of Criminal Justice Institutional Division</b>	<b>Teacher Retirement System</b>	<b>Texas Prepaid Higher Education Tuition Board</b>	<b>Other Nonmajor Enterprise Funds</b>	<b>Totals</b>
\$ 78,265	\$ 862,447	\$ 88,310	\$ 7,906	\$ 6,769,119
				82,244
			3,326	706,289
721		18	17,192	143,170
(55,438)	(799,376)	(13,774)	(1,597)	(1,280,285)
(15,799)			(8,864)	(49,331)
			(910)	(776,325)
(1,651)	(1,631)	(75,195)	(12,726)	(3,636,162)
6,098	61,440	(641)	4,327	1,958,719
			11	678,066
4,396			7,313	3,812,082
			13	22,173
				(659,432)
				(330,284)
			(2,001)	(4,611)
(10,429)			(6,799)	(4,916,451)
			(15)	(163,181)
(6,033)	0	0	(1,478)	(1,561,638)
				7,163
				3,197
(65)			(258)	(10,135)
				(1,234)
(65)	0	0	(258)	(1,009)
31,771				1,391,070
591	17,764	49,104	509	542,619
(32,362)		(111,357)	(397)	(1,805,025)
0	17,764	(62,253)	112	128,664
0	79,204	(62,894)	2,703	524,736
	358,502	122,316	18,999	2,619,297
			1	1
0	358,502	122,316	19,000	2,619,298
\$ 0	\$ 437,706	\$ 59,422	\$ 21,703	\$ 3,144,034

**State of Texas**  
**Combining Statement of Cash Flows –**  
**Nonmajor Enterprise Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 807,516	\$ (38,179)	\$ 1,089,035	\$ (2,541)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization		1,113	256	3,003
Bad Debt Expense		12	790	
Operating Income (Loss) and Cash Flow Categories Classification Differences		83,162		92,056
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	62,501	(6,176)	(3,839)	41,047
(Increase) Decrease in Due From Other Funds				
(Increase) Decrease in Inventories			144	
(Increase) Decrease in Loans and Contracts		(88,163)		(114,677)
(Increase) Decrease in Other Assets		871		2,093
(Increase) Decrease in Prepaid Expenses			1,555	
Increase (Decrease) in Payables	(8,959)	285	(9,211)	2,081
Increase (Decrease) in Deposits		5,804		
Increase (Decrease) in Due To Other Funds				
Increase (Decrease) in Deferred Revenue	15,245	17,472		
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Benefits Payable				
Increase (Decrease) in Other Liabilities		(64,436)		(2,365)
Total Adjustments	<u>68,787</u>	<u>(50,056)</u>	<u>(10,305)</u>	<u>23,238</u>
Net Cash Provided by Operating Activities	<u>\$ 876,303</u>	<u>\$ (88,235)</u>	<u>\$ 1,078,730</u>	<u>\$ 20,697</u>
<b>NON CASH TRANSACTIONS</b>				
Net Change in Fair Value of Investments		\$ 33,416	\$ 58,686	\$ 5,292

<b>Texas Department of Criminal Justice Institutional Division</b>	<b>Teacher Retirement System</b>	<b>Texas Prepaid Higher Education Tuition Board</b>	<b>Other Nonmajor Enterprise Funds</b>	<b>Totals</b>
\$ 5,257	\$ 48,515	\$ (139,412)	\$ 2,875	\$ 1,773,066
132		424	463 325	5,391 1,127
		(3)	(276)	174,939
(45)	716	70,836	(1,007)	164,033
			(6)	(6)
1,924			29	2,097
			1,432	(201,408)
				2,964
			(93)	1,462
(1,170)	12,168		1,660	(3,146)
				5,804
		12	(1,065)	(1,053)
			(16)	32,701
		(52)	6	(46)
	41	67,554		67,595
				(66,801)
<u>841</u>	<u>12,925</u>	<u>138,771</u>	<u>1,452</u>	<u>185,653</u>
<u>\$ 6,098</u>	<u>\$ 61,440</u>	<u>\$ (641)</u>	<u>\$ 4,327</u>	<u>\$ 1,958,719</u>
		\$ (86,255)		\$ 11,139



## **COLLEGES AND UNIVERSITIES – MAJOR ENTERPRISE FUND**

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There are six university system offices and five independent universities in Texas' primary government presented in a single-column as a major fund on the Basic Financial Statements. Schedules have been prepared to report the breakdown of the following universities.

**The University of Texas System**  
**Texas A&M University System**  
**Texas Tech University System**  
**The University of Houston System**  
**Texas State University System**  
**The University of North Texas System**  
**Texas Woman's University**  
**Stephen F. Austin State University**  
**Texas Southern University**  
**Midwestern State University**  
**Texas State Technical College**

**State of Texas**  
**Schedule of Net Assets**  
**Colleges and Universities – Major Enterprise Fund**  
**August 31, 2006 (Amounts in Thousands)**

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>ASSETS</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 1,386,868	\$ 195,527	\$ 219,554	\$ 141,118	\$ 381,834
Short Term Investments		230,508		44,797	
Securities Lending Collateral	1,951,568	188,646			
Restricted:					
Cash and Cash Equivalents	386,049	43,796	115,251	22,456	24,805
Short Term Investments		249,257			198
Loans and Contracts				8,807	
Receivables:					
Federal	171,954	65,971	6,706	21,368	8,531
Other Intergovernmental	27,596	15,079			
Accounts	204,301	8,294	673	11,510	53,848
Interest and Dividends	61,103	8,979	1,908	2,351	548
Gifts	55,507	14,069	20,398	14,038	
Investment Trades	447,141	54,118			
Other	694,168	91,627	38,783	152	1,935
Due From Other Funds	80,121	79,971	55,977	59,195	72,771
Interfund Receivable		22,920			
Inventories	68,920	26,697	3,451	2,350	3,416
Prepaid Items		805	12,291	18,726	20,889
Loans and Contracts	43,841	15,909	4,041		5,811
Other Current Assets	115,048	23,586	909		18,898
Total Current Assets	<u>5,694,185</u>	<u>1,335,759</u>	<u>479,942</u>	<u>346,868</u>	<u>593,484</u>
Non-Current Assets:					
Restricted:					
Cash and Cash Equivalents	46		21,730	21,605	29,150
Short Term Investments					
Investments	19,642,199	712,601	154,501		143,695
Receivables					4,767
Loans and Contracts	84,171	4,804		10,457	1,374
Other					2,559
Loans and Contracts		25,353	2,911		1,039
Investments	2,607,510	1,316,259	631,289	564,195	48,833
Interfund Receivable		405,970			
Other Receivables					
Gifts Receivable	113,291	59,593	39,775		
Capital Assets:					
Non-Depreciable	1,357,308	466,839	222,422	81,063	259,972
Depreciable	10,934,144	3,374,843	1,311,509	1,127,696	1,412,179
Accumulated Depreciation	(4,713,356)	(2,018,047)	(659,638)	(669,370)	(768,324)
Assets Held in Trust		362			
Other Non-Current Assets	28,250	1,454			
Total Non-Current Assets	<u>30,053,563</u>	<u>4,350,031</u>	<u>1,724,499</u>	<u>1,135,646</u>	<u>1,135,244</u>
Total Assets	<u>35,747,748</u>	<u>5,685,790</u>	<u>2,204,441</u>	<u>1,482,514</u>	<u>1,728,728</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 151,302 282	\$ 11,997 16,990	\$ 37,538 893	\$ 19,377	\$ 3,767 14,738	\$ 20,405 9,003	\$ 2,569,287 317,211 2,140,214
8,797 6,830	4,774 33,965	45,843 2,264	5,147 26,794	3 856	3,541 15,207	660,462 335,371 8,807
13,586 299	3,668	1,196 679	2,737	158	1,188	297,063 43,653
42,835 2,021	6,530 653	4,632 610	16,427	3,007 218	12,106 85	364,163 78,476
3,775	4,796		1,292	518		114,393 501,259
48,673	1,389 8,637	1,624 10,663	4,563 6,192	752 2,132	216 9,668	835,209 434,000
2,750	611	501	497	307	2,549	22,920 112,049
7,223	1,003 5,749	12,113 3,358		16		65,827 85,948
13,059			4,855	4,557		180,912
<u>301,432</u>	<u>100,762</u>	<u>121,914</u>	<u>87,881</u>	<u>31,029</u>	<u>73,968</u>	<u>9,167,224</u>
					26	72,557
				1,461	261	1,722
55,302	64,386	12,958	20,560	861		20,807,063
		6,062	2,269	105		4,767
						109,242
						2,559
5,261						34,564
125,183		17,375		12,684		5,323,328
		2,081				405,970
						2,081
3,314						215,973
110,592	43,600	63,390	35,080	7,001	4,794	2,652,061
696,865	245,810	248,823	334,922	144,757	148,472	19,980,020
(367,056)	(122,619)	(165,743)	(177,675)	(66,213)	(97,272)	(9,825,313)
						362
314						30,018
<u>629,775</u>	<u>231,177</u>	<u>184,946</u>	<u>215,156</u>	<u>100,656</u>	<u>56,281</u>	<u>39,816,974</u>
931,207	331,939	306,860	303,037	131,685	130,249	48,984,198

Concluded on the following page

**State of Texas**  
**Schedule of Net Assets**  
**Colleges and Universities – Major Enterprise Fund (concluded)**  
**August 31, 2006 (Amounts in Thousands)**

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>LIABILITIES</b>					
Current Liabilities:					
Payables:					
Accounts	\$ 857,571	\$ 118,395	\$ 30,647	\$ 16,405	\$ 17,035
Payroll		94,075	44,294	30,214	28,540
Other Intergovernmental	13				10,724
Federal	44,039			1,149	
Investment Trades	1,020,457	183,176			
Interest					
Due To Other Funds	9,781	22		348	
Interfund Payable	22,920				
Deferred Revenue	825,809	293,975	100,207	112,087	194,060
Obligations/Securities Lending	1,951,568	188,646			
Claims and Judgments	80,336	14,281	2,354	353	
Capital Lease Obligations	595	194			28
Employees' Compensable Leave	213,219	4,957	6,849	8,592	11,368
Notes and Loans Payable	658,539	2,765	13,135	65	
General Obligation Bonds Payable					
Revenue Bonds Payable	159,685	83,646	20,975	18,933	26,030
Liabilities Payable From Restricted Assets	296,426	9,485			
Funds Held for Others	19,496	35,694	11,427	6,294	13,125
Other Current Liabilities	39,004	10,058	25,075	3,032	3,420
Total Current Liabilities	<u>6,199,458</u>	<u>1,039,369</u>	<u>254,963</u>	<u>197,472</u>	<u>304,330</u>
Non-Current Liabilities:					
Interfund Payable	413,052	8,909	1,222		
Claims and Judgments	78,875	9,416	21,190	17	
Capital Lease Obligations	1,872	1,509			32
Employees' Compensable Leave	146,806	79,834	24,664	10,076	6,271
Notes and Loans Payable	23,385	81,578			
General Obligation Bonds Payable					
Revenue Bonds Payable	3,435,092	1,161,329	407,785	313,183	494,615
Assets Held for Others	650,828	362			
Other Non-Current Liabilities	21,434	82,016	86		2,354
Total Non-Current Liabilities	<u>4,771,344</u>	<u>1,424,953</u>	<u>454,947</u>	<u>323,276</u>	<u>503,272</u>
Total Liabilities	<u>10,970,802</u>	<u>2,464,322</u>	<u>709,910</u>	<u>520,748</u>	<u>807,602</u>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	3,807,000	649,069	485,535	254,154	383,203
Restricted for:					
Education	1,384,068	270,414	121,846		40,998
Debt Retirement	5,810		11,137	27	
Capital Projects	22,393		30,232	671	5,182
Funds Held as Permanent Investments:					
Nonexpendable	8,339,640	435,951	405,040	318,315	156,115
Expendable	7,869,300	73,880		75,390	11,365
Unrestricted	<u>3,348,735</u>	<u>1,792,154</u>	<u>440,741</u>	<u>313,209</u>	<u>324,263</u>
Total Net Assets	<u>\$24,776,946</u>	<u>\$ 3,221,468</u>	<u>\$ 1,494,531</u>	<u>\$ 961,766</u>	<u>\$ 921,126</u>



University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 15,624	\$ 10,084	\$ 4,454	\$ 7,652	\$ 1,881	\$ 2,921	\$ 1,082,669
36,568		5,568	5,926	3,393	6,041	254,619
		1,372				12,109
					249	45,437
		2,060	2,274			1,203,633
	424		88			4,334
						10,663
						22,920
109,231	32,335	40,916	39,752	15,541	11,544	1,775,457
						2,140,214
						97,324
174	162	67		1	369	1,590
1,213	1,807	290	157	121	340	248,913
						674,504
			2,205	1,145	1,340	4,690
10,230	3,355	4,355	5,570	1,345	435	334,559
		769				306,680
16,192		10,751	502	97	4,202	117,780
2,970	3,503	242	5,548	74	458	93,384
<u>192,202</u>	<u>51,670</u>	<u>70,844</u>	<u>69,674</u>	<u>23,598</u>	<u>27,899</u>	<u>8,431,479</u>
					119	423,302
						109,498
621	2,343	76			3,487	9,940
14,437	1,174	2,402	2,950	970	4,579	294,163
26,104						131,067
			36,315	9,164	12,829	58,308
212,575	47,049	120,155	105,520	25,130	8,720	6,331,153
200	167					651,557
71		767	2,789	223	11	109,751
<u>254,008</u>	<u>50,733</u>	<u>123,400</u>	<u>147,574</u>	<u>35,487</u>	<u>29,745</u>	<u>8,118,739</u>
<u>446,210</u>	<u>102,403</u>	<u>194,244</u>	<u>217,248</u>	<u>59,085</u>	<u>57,644</u>	<u>16,550,218</u>
190,907	114,019	50,934	38,006	48,759	42,130	6,063,716
37,052	1,727	13,280		3,375	1,481	1,874,241
267						17,241
2,533		5,559			1,989	68,559
14,590	6,833	6,226	23,854		286	9,706,850
2,181	51,858	2,927		3,572		8,090,473
<u>237,467</u>	<u>55,099</u>	<u>33,690</u>	<u>23,929</u>	<u>16,894</u>	<u>26,719</u>	<u>6,612,900</u>
<u>\$ 484,997</u>	<u>\$ 229,536</u>	<u>\$ 112,616</u>	<u>\$ 85,789</u>	<u>\$ 72,600</u>	<u>\$ 72,605</u>	<u>\$32,433,980</u>

**State of Texas**  
**Schedule of Revenues, Expenses, and Changes in Fund Net Assets**  
**Colleges and Universities – Major Enterprise Fund**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>OPERATING REVENUES</b>					
Tuition Revenue	\$	\$ 9,548	\$ 26,465	\$ 308,557	\$
Tuition Revenue - Pledged	1,067,633	555,396	187,642		314,161
Discounts and Allowances	(228,862)	(120,791)	(22,090)	(52,586)	(55,277)
Hospital Revenue - Pledged	5,311,046				
Discounts and Allowances	(2,736,196)				
Professional Fees	2,763,900	10,141	104,397		
Professional Fees - Pledged	4,500	4,033			
Discounts and Allowances	(1,975,089)				
Auxiliary Enterprises				38,780	
Auxiliary Enterprises - Pledged	306,387	201,754	70,731		87,461
Discounts and Allowances	(6,466)	(13,772)			(7,180)
Other Sales of Goods and Services		19,542	4,281	18,747	13,243
Other Sales of Goods and Services - Pledged	252,774	97,627	9,059		
Discounts and Allowances	(281)	(170)			
Interest and Investment Income		847			153
Interest and Investment Income - Pledged					306
Federal Revenue	1,324,127	450,332	58,801	95,386	85,132
State Grant Revenue	66,257	59,347	88,544	8,789	2,496
Other Operating Grant Revenue	226,999		92,331	15,177	6,205
Other Operating Grant Revenue - Pledged	351,206	101,520	3,205		
Other Revenues	24,201	19,984		1,692	12,038
Other Revenues - Pledged	85,648	17,605			
Total Operating Revenues	<u>6,837,784</u>	<u>1,412,943</u>	<u>623,366</u>	<u>434,542</u>	<u>458,738</u>
<b>OPERATING EXPENSES</b>					
Cost of Goods Sold	100,193	20,250		1,903	6,750
Salaries and Wages	4,656,948	1,184,083	494,846	398,150	360,294
Payroll Related Costs	1,100,009	271,599	111,129	82,195	80,638
Professional Fees and Services	333,880	139,790	59,263	35,680	24,033
Travel	107,151	57,541	11,028	11,983	10,488
Materials and Supplies	944,738	179,320	73,878	33,843	59,670
Communication and Utilities	307,506	122,866	42,101	44,973	37,591
Repairs and Maintenance	161,252	62,976	17,633	8,198	13,320
Rentals and Leases	96,030	33,140	9,542	11,988	9,123
Printing and Reproduction	21,469	13,083	6,304	4,354	3,447
Depreciation and Amortization	557,751	119,625	45,836	34,088	39,657
Bad Debt Expense	3,116		221		269
Interest Expense		127		2,341	25
Scholarships	230,131	103,541	37,869	46,990	58,048
Claims and Judgments	20,862	2,935	119	1,250	117
Other Expenses	523,817	216,797	48,200	18,900	51,278
Total Operating Expenses	<u>9,164,853</u>	<u>2,527,673</u>	<u>957,969</u>	<u>736,836</u>	<u>754,748</u>
Operating (Loss)	<u>(2,327,069)</u>	<u>(1,114,730)</u>	<u>(334,603)</u>	<u>(302,294)</u>	<u>(296,010)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 72,154	\$ 54,857	\$ 3,130	\$	\$	\$ 2,602	\$ 477,313
119,247	315	51,311	60,959	21,980	21,749	2,400,393
(24,925)	(5,600)	(10,605)	(21,241)		(10,132)	(552,109)
						5,311,046
						(2,736,196)
62,626						2,941,064
						8,533
(200)						(1,975,289)
1,289	7,098	890			1,032	49,089
33,621	6,773	22,694	4,635	4,949	12,490	751,495
(87)		(4,180)	(1,154)		(1,281)	(34,120)
21,675		1,171	1,071			79,730
		6,076	3,125	1,242	4,938	374,841
						(451)
		184				1,184
			104		497	907
53,609	9,508	15,310	39,272	665	19,266	2,151,408
912	338	575	526		1,163	228,947
19			3,356	60		344,147
7,652	876	889			440	465,788
216	1,023					59,154
		21	2,629	582		106,485
347,808	75,188	87,466	93,282	29,478	52,764	10,453,359
1,062	255	5,812			3,793	140,018
266,239	65,527	67,752	75,325	30,441	63,578	7,663,183
61,052	14,752	16,354	16,623	7,509	18,335	1,780,195
21,796	1,232	1,675	13,341	2,399	1,281	634,370
6,930	1,507	1,925	1,881	1,062	1,228	212,724
38,936	9,265	5,942	7,168	5,510	12,118	1,370,388
20,219	7,599	11,415	6,435	2,615	7,467	610,787
11,258	2,050	1,939	1,139	1,210	2,489	283,464
7,028	1,179	1,789	1,500	383	1,035	172,737
3,615	487	631	798	401	196	54,785
24,788	8,750	5,468	4,692	4,974	5,290	850,919
3,817	548	6	1,877	302		10,156
(1)					1	2,493
30,872	16,672	11,192	21,921	6,391	9,191	572,818
		6	88		4	25,381
19,760	5,444	12,416	7,026		6,473	910,111
517,371	135,267	144,322	159,814	63,197	132,479	15,294,529
(169,563)	(60,079)	(56,856)	(66,532)	(33,719)	(79,715)	(4,841,170)

Concluded on the following page

**State of Texas**  
**Schedule of Revenues, Expenses, and Changes in Fund Net Assets**  
**Colleges and Universities – Major Enterprise Fund** (concluded)  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal Revenue	\$	\$	\$	\$	\$
Gifts	234,597	59,974	63,245	32,559	16,493
Gifts - Pledged	20,185	27,645			
Land Income		6,115			
Interest and Investment Income	2,053,465	71,256	51,880	56,608	20,022
Interest and Investment Income (Loss) - Pledged	376,865	108,314	30,144		
Investing Activities Expense	(125,195)	(10,710)			(1,805)
Interest Expense	(170,568)	(55,969)	(16,113)	(13,805)	(12,249)
Borrower Rebates and Agent Fees		(378)			
Gain (Loss) on Sale of Capital Assets	(32,982)	(2,297)	(939)	260	(1,463)
Settlement of Claims					
Claims and Judgments		(232)			(260)
Other Revenues	319	5,462	(8,523)	(27,379)	8,722
Other Revenues - Pledged	2,139	2,912	18,153		
Other Expenses	(7,895)	(32,895)	96		(936)
Total Nonoperating Revenues (Expenses)	2,350,930	208,023	138,979	48,243	28,524
Income (Loss) Before Capital Contributions, Endowments, and Transfers	23,861	(906,707)	(195,624)	(254,051)	(267,486)
<b>CAPITAL CONTRIBUTIONS, ENDOWMENTS, SPECIAL ITEMS, AND TRANSFERS</b>					
Capital Contributions - Federal	47,891				14
Capital Contributions (Distributions) - Other	94,932	9,782	3,888	(23)	(678)
Contributions to Permanent and Term Endowments	102,351	3,764	1,818	9,947	2,036
Special Items					(38,898)
Transfer In	2,038,028	1,169,026	335,246	298,480	371,161
Transfer Out	(395,043)	(7,664)	(2,663)	(3,360)	(3,003)
Total Capital Contributions, Endowments, Special Items, and Transfers	1,888,159	1,174,908	338,289	305,044	330,632
Change in Net Assets	1,912,020	268,201	142,665	50,993	63,146
Net Assets, September 1, 2005	22,864,926	2,881,774	1,351,866	910,773	857,713
Restatements		71,493			267
Net Assets, September 1, 2005, as Restated	22,864,926	2,953,267	1,351,866	910,773	857,980
Net Assets, August 31, 2006	\$24,776,946	\$ 3,221,468	\$ 1,494,531	\$ 961,766	\$ 921,126

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 9,851	\$ 4,993	\$ 2,298	\$	\$ 4,685 3,282	\$ 54	\$ 34,547 422,353
		1				52,823 6,116
16,186	5,221 (756)	535 2,838	2,172	1,326	1,094	2,275,173 521,997
(67) (12,098)	(2,521)	(90) (1,743)	(1,890) (6,898)	(1,494)	(985)	(139,757) (294,443)
(225)	(743)	(124) 41		(28)	(203)	(378) (38,744)
(1,104) (109)						41 (1,596)
	15,224		1,769		609	(20,899) 40,197
23	(1)	(7)	(142)	(5)	(1,680)	(43,442)
<u>12,457</u>	<u>21,417</u>	<u>3,749</u>	<u>(4,989)</u>	<u>7,766</u>	<u>(1,111)</u>	<u>2,813,988</u>
<u>(157,106)</u>	<u>(38,662)</u>	<u>(53,107)</u>	<u>(71,521)</u>	<u>(25,953)</u>	<u>(80,826)</u>	<u>(2,027,182)</u>
						47,905
1,065				50	77	109,093
1,365		552	1,924	182		123,939 (38,898)
213,627 (2,833)	72,116 (1,618)	59,109 (518)	74,389 (351)	30,632 (349)	85,602 (1,484)	4,747,416 (418,886)
<u>213,224</u>	<u>70,498</u>	<u>59,143</u>	<u>75,962</u>	<u>30,515</u>	<u>84,195</u>	<u>4,570,569</u>
56,118	31,836	6,036	4,441	4,562	3,369	2,543,387
436,658 (7,779)	196,147 1,553	108,454 (1,874)	81,719 (371)	67,734 304	69,236	29,827,000 63,593
<u>428,879</u>	<u>197,700</u>	<u>106,580</u>	<u>81,348</u>	<u>68,038</u>	<u>69,236</u>	<u>29,890,593</u>
<u>\$ 484,997</u>	<u>\$ 229,536</u>	<u>\$ 112,616</u>	<u>\$ 85,789</u>	<u>\$ 72,600</u>	<u>\$ 72,605</u>	<u>\$32,433,980</u>

**State of Texas**  
**Schedule of Cash Flows**  
**Colleges and Universities – Major Enterprise Fund**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from Customers	\$ 3,353,384	\$ 108,635	\$ 103,677	\$ 48,374	\$ 20,056
Proceeds from Tuition and Fees	870,625	477,551	201,985	260,215	276,502
Proceeds from Research Grants and Contracts	2,120,629	800,909	256,886	109,028	41,401
Proceeds from Gifts					1,908
Proceeds from Loan Programs	101,007	12,399	1,206	8,306	11,407
Proceeds from Auxiliaries	301,506	188,968	72,527	37,959	74,806
Proceeds from Other Revenues	480,106	35,052	6,585	24,440	114,672
Payments to Suppliers for Goods and Services	(2,905,981)	(892,837)	(224,244)	(164,425)	(203,888)
Payments to Employees	(5,775,388)	(1,448,679)	(484,969)	(482,437)	(433,425)
Payments for Loans Provided	(104,677)	(10,477)	(1,111)	(9,020)	(11,097)
Payments for Other Expenses	(128)	(146,106)	(200,141)	(82,045)	(87,606)
Net Cash Provided by Operating Activities	(1,558,917)	(874,585)	(267,599)	(249,605)	(195,264)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Proceeds from State Appropriations	1,715,807	836,949	266,995	249,448	296,612
Proceeds from Gifts	224,881	85,885	69,010	37,944	14,958
Proceeds from Endowments	60,374	3,775		27,847	12,389
Proceeds from Transfers from Other Funds		137,236	14,322	23,100	346
Proceeds from Grant Receipts		27,159			260
Proceeds of Advances from Other Funds				180	482
Proceeds from Loan Programs			34,404		12
Proceeds from Other Financing Activities	111,131	47,641	9,351		5,707
Proceeds from Contributed Capital					
Payments of Principal on Debt Issuance					(4,890)
Payments of Interest					
Payments of Other Costs on Debt Issuance					(172)
Payments for Transfers to Other Funds		(4,353)	(1,215)	(21,833)	(10,003)
Payments for Grant Disbursements					(185)
Payments for Other Uses	(4,057)	(27,214)	(34,274)	(33,618)	
Net Cash Provided by Noncapital Financing Activities	2,108,136	1,107,078	358,593	283,068	315,516
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from Sale of Capital Assets	10,384	1,731			
Proceeds from Debt Issuance	1,235,255	197,567	218,803	56,914	63,656
Proceeds from State Grants and Contracts		17,552			
Proceeds from Gifts			3,874		
Proceeds from Other Financing Activities			434	2,294	2,021
Proceeds from Capital Contributions	156,672		29,786	61,803	56,820
Proceeds of Advances from Other Funds		2,889			34,791
Payments for Additions to Capital Assets	(1,082,784)	(206,689)	(114,146)	(60,345)	(204,159)
Payments of Principal on Debt Issuance	(693,462)	(86,583)	(164,911)	(14,315)	(40,597)
Payments for Capital Leases		(170)			(27)
Payments of Interest on Debt Issuance	(175,620)	(57,610)	(18,560)	(13,831)	(18,504)
Payments of Other Costs on Debt Issuance	(4,138)	(60)		(2,356)	(2,560)
Net Cash Provided by Capital and Related Financing Activities	(553,693)	(131,373)	(44,720)	30,164	(108,559)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from Sale of Investments	30,139,391	4,021,457	50,255		14,600
Proceeds from Interest and Investment Income	804,036	77,175	92,133	136,070	22,169
Payments to Acquire Investments	(31,908,480)	(4,197,949)	(146,910)	(205,624)	(51,495)
Net Cash Provided by Investing Activities	(965,053)	(99,317)	(4,522)	(69,554)	(14,726)
Net Increase (Decrease) in Cash and Cash Equivalents	(969,527)	1,803	41,752	(5,927)	(3,033)
Cash and Cash Equivalents, September 1, 2005	2,742,490	237,520	314,783	191,106	439,008
Restatements					(186)
Cash and Cash Equivalents, September 1, 2005, as Restated	2,742,490	237,520	314,783	191,106	438,822
Cash and Cash Equivalents, August 31, 2006	\$ 1,772,963	\$ 239,323	\$ 356,535	\$ 185,179	\$ 435,789

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 71,715	\$	\$	\$	\$ 22,344	\$ 17,154	\$ 3,745,339
174,022	63,443	46,735	14,314		13,058	2,398,450
73,788	13,393	20,208	47,937		30,675	3,514,854
				1,239		3,147
7,214			64,408	17		205,964
34,174		22,441	7,677	4,949		745,007
469	1,023	4,639	7,296	2,120	1,927	678,329
(140,912)	(22,067)	(43,608)	(36,986)	(19,843)	(45,373)	(4,700,164)
(325,190)	(81,449)	(84,266)	(92,244)	(38,002)	(82,329)	(9,328,378)
(7,626)	(16,672)	(10,834)	(42,214)	(39)		(213,767)
(37,143)	(5,444)		(18,563)		(170)	(577,346)
(149,489)	(47,773)	(44,685)	(48,375)	(27,215)	(65,058)	(3,528,565)
176,683	70,534	44,967	65,119	23,166	76,714	3,822,994
8,039		2,298		4,062	54	447,131
1,364			4,605			110,354
	18,717					193,721
				5,949		33,368
						662
						34,416
4,771		122	4,366		609	183,698
				182		182
(207)						(5,097)
(221)						(221)
(78)						(250)
(2,279)		(507)	(24)	(129)		(40,343)
						(185)
(1,634)	(1,619)	(6)		(4)	(1,577)	(104,003)
186,438	87,632	46,874	74,066	33,226	75,800	4,676,427
						12,115
74,882		55,365			15,695	1,918,137
		4,684				22,236
						3,874
18,415		1,356		2,290		26,810
			7,438	50		312,569
						37,680
(51,101)	(31,379)	(66,948)	(28,744)	(12,634)	(7,679)	(1,866,608)
(44,894)	(3,165)	(4,075)	(7,915)	(2,548)	(2,495)	(1,064,960)
	(153)					(350)
(10,744)	(2,521)	(887)	(6,510)	(1,713)	(938)	(307,438)
(866)					(1,484)	(11,464)
(14,308)	(37,218)	(10,505)	(35,731)	(14,555)	3,099	(917,399)
235,112	8,092	18,423	1,441	65,572	4,146	34,558,489
12,626	5,221	16,320	254	1,188	1,092	1,168,284
(276,381)	(11,991)			(57,745)	(18,827)	(36,875,402)
(28,643)	1,322	34,743	1,695	9,015	(13,589)	(1,148,629)
(6,002)	3,963	26,427	(8,345)	471	252	(918,166)
166,101	12,808	56,954	32,869	3,299	23,720	4,220,658
						(186)
166,101	12,808	56,954	32,869	3,299	23,720	4,220,472
\$ 160,099	\$ 16,771	\$ 83,381	\$ 24,524	\$ 3,770	\$ 23,972	\$ 3,302,306

Concluded on the following page

**State of Texas**  
**Schedule of Cash Flows**  
**Colleges and Universities – Major Enterprise Fund** (concluded)  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating (Loss)	\$ (2,327,069)	\$ (1,114,730)	\$ (334,603)	\$ (302,294)	\$ (296,010)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	557,751	119,625	45,836	34,088	39,657
Bad Debt Expense	232,505	1,942	221		269
Operating Income (Loss) and Cash Flow Categories Classification Differences		823			(255)
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(264,601)	12,738	(9,293)	18,519	4,254
(Increase) Decrease in Due From Other Funds		8,491	1,917		907
(Increase) Decrease in Inventories	2,820	1,962	641	777	95
(Increase) Decrease in Notes Receivable					890
(Increase) Decrease in Loans and Contracts	(3,669)	914	249	(714)	819
(Increase) Decrease in Other Assets	188,134	50,657	8,979	6,553	43,577
(Increase) Decrease in Prepaid Expenses		(5,479)	5,191	8,058	(887)
(Increase) Decrease in State Appropriations					(11)
Increase (Decrease) in Payables	22,062	53,266	722	(25,069)	(12,242)
Increase (Decrease) in Deposits	9,770	6			185
Increase (Decrease) in Due To Other Funds		(8,735)	(14)		325
Increase (Decrease) in Deferred Revenue	(1,027)	(1,474)	5,580	7,374	17,348
Increase (Decrease) in Compensated Absence Liability	22,966	6,797	4,763	1,366	773
Increase (Decrease) in Benefits Payable		939		1,562	
Increase (Decrease) in Other Liabilities	1,441	(2,327)	2,212	175	5,042
Total Adjustments	<u>768,152</u>	<u>240,145</u>	<u>67,004</u>	<u>52,689</u>	<u>100,746</u>
Net Cash Provided by Operating Activities	<u>\$ (1,558,917)</u>	<u>\$ (874,585)</u>	<u>\$ (267,599)</u>	<u>\$ (249,605)</u>	<u>\$ (195,264)</u>
<b>NON CASH TRANSACTIONS</b>					
Net Change in Fair Value of Investments	\$ (703,194)	\$ (91,333)	\$ (779)	\$ 22,144	\$ (854)
Donation of Capital Assets	\$ (34,918)	\$ (1,165)		\$ (126)	\$ (1,035)
Borrowing Under Capital Lease Purchase	\$ (544)				
Other	\$ 15,043	\$ (45,029)		\$ (4,621)	\$ (12,706)



University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ (169,563)	\$ (60,079)	\$ (56,856)	\$ (66,532)	\$ (33,719)	\$ (79,715)	\$ (4,841,170)
24,788	8,750	5,468	4,692	4,974	5,290	850,919
3,817	548	6	1,877	302		241,487
						568
(6,263)	18,937	(6,606)	1,070	891	221	(230,133)
	78	25	122		42	11,582
460	(39)	2	50	(16)	178	6,930
						890
(565)		382		(22)		(2,606)
3,188	1,274	9,446	1,505	102	7,724	321,139
(785)	77	(1,734)	54	148		4,643
	(5,119)					(5,130)
(6,996)	(3,214)	212	2,982	340	681	32,744
		48				10,009
(147)	307					(8,264)
2,492	(10,545)	2,945	5,161	(207)	(743)	26,904
	344	137	116			37,262
						2,501
85	908	1,840	528	(8)	1,264	11,160
20,074	12,306	12,171	18,157	6,504	14,657	1,312,605
<u>\$ (149,489)</u>	<u>\$ (47,773)</u>	<u>\$ (44,685)</u>	<u>\$ (48,375)</u>	<u>\$ (27,215)</u>	<u>\$ (65,058)</u>	<u>\$ (3,528,565)</u>
\$ (2,562)	\$ 756	\$ (104)	\$ 270	\$ (133)		\$ (775,789)
				\$ (1)	\$ (25)	\$ (37,270)
						\$ (544)
\$ 319				\$ 28	\$ 151	\$ (46,815)



# STATE *of* TEXAS



## FIDUCIARY FUNDS



BLUFF OVER LAKE LBJ  
HILL COUNTRY

## PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

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The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters’ Relief and Retirement Fund** accounts for the accumulation of resources for pension, death, and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state’s General Revenue Fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity, and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the State of Texas.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The State of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The Fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments, and pays expenses associated with administration of the deferred compensation plan.

**State of Texas**  
**Combining Statement of Fiduciary Net Assets –**  
**Pension and Other Employee Benefit Trust Funds**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Teacher Retirement System Trust Account</b>	<b>S.E.R.S. Trust Account</b>	<b>Law Enforcement and Custodial Officer Supplement Retirement Fund</b>	<b>Judicial Retirement System - Plan Two Trust Fund</b>	<b>Fire Fighters' Relief and Retirement Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,948,300	\$ 75,156	\$ 2,096	\$ 791	\$ 201
Securities Lending Collateral	10,730,541	4,849,890	160,389	41,056	
Investments:					
U.S. Government	12,423,022	5,077,075	167,738	43,278	
Corporate Equity	51,005,140	9,339,103	308,548	79,608	21,070
Corporate Obligations	12,232,112	2,934,433	96,949	25,014	
Repurchase Agreements		144,036	4,759	1,228	
Foreign Securities	18,054,880	4,078,856	134,758	34,769	11,376
Other	6,307,868	6,911	228	59	11,096
Receivables:					
Interest and Dividends	391,434	4,285	140	37	30
Accounts	167,888	48,565		1,188	679
Investment Trades	648,752	53,613	1,773	454	
Other	770				
Due From Other Funds	663	5,291			
Properties, at Cost, net of Accumulated Depreciation	29,944	6,011			
Other Assets					
Total Assets	113,941,314	26,623,225	877,378	227,482	44,452
<b>LIABILITIES</b>					
Payables:					
Accounts	3,637	20,019	238	49	179
Investment Trades	2,397,062	201,093	6,650	1,702	
Payroll	98	1,638			
Other Liabilities	460,899				
Deferred Revenue	34,426	36		3	88
Due To Other Funds	73,144	663	307	86	
Employees' Compensable Leave	2,544	1,774			
Obligations/Securities Lending	10,730,541	4,849,890	160,389	41,056	
Total Liabilities	13,702,351	5,075,113	167,584	42,896	267
<b>NET ASSETS</b>					
Held in Trust for Pension Benefits and Other Purposes	<u>\$100,238,963</u>	<u>\$ 21,548,112</u>	<u>\$ 709,794</u>	<u>\$ 184,586</u>	<u>\$ 44,185</u>

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$ 32,341	\$ 2,215	\$ 3,149	\$ 1,047	\$ 2,065,296
					15,781,876
					17,711,113
		169,978			60,923,447
					15,288,508
					150,023
					22,314,639
	471,000	140,761			6,937,923
	2,263	3	17	4	398,213
	63,681	4	4,460		286,465
					704,592
					770
322	9,225		4		15,505
					35,955
			101		101
322	578,510	312,961	7,731	1,051	142,614,426
322	11,668	62	6,113		42,287
					2,606,507
	103,800				105,536
					460,899
		8			34,561
		34	27	23	74,284
	56				4,374
					15,781,876
322	115,524	104	6,140	23	19,110,324
\$ 0	\$ 462,986	\$ 312,857	\$ 1,591	\$ 1,028	\$123,504,102

**State of Texas**  
**Combining Statement of Changes in Fiduciary Net Assets –**  
**Pension and Other Employee Benefit Trust Funds**  
For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
<b>ADDITIONS</b>					
Contributions:					
Member Contributions	\$ 1,853,973	\$ 342,152	\$	\$ 3,679	\$ 2,520
State Contributions		316,738		10,052	
Transfer In of Contributions	1,417,041				
Premium Contributions					
Federal Contributions					
Other Contributions	267,400				
Total Contributions	<u>3,538,414</u>	<u>658,890</u>	<u>0</u>	<u>13,731</u>	<u>2,520</u>
Investment Income:					
From Investing Activities:					
Net Appreciation in					
Fair Value of Investments	6,326,057	1,069,645	35,478	8,905	2,051
Interest and Investment Income	2,610,461	676,718	22,489	5,534	1,576
Total Investing Income	<u>8,936,518</u>	<u>1,746,363</u>	<u>57,967</u>	<u>14,439</u>	<u>3,627</u>
Less Investing Activities Expense	19,099	20,354	696	151	264
Net Income from Investing Activities	<u>8,917,419</u>	<u>1,726,009</u>	<u>57,271</u>	<u>14,288</u>	<u>3,363</u>
From Securities Lending Activities:					
Securities Lending Income	550,074	211,867	7,041	1,733	
Less Securities Lending Expense:					
Borrower Rebates	510,720	197,782	6,573	1,618	
Management Fees	5,904	2,506	83	20	
Net Income from Securities Lending	<u>33,450</u>	<u>11,579</u>	<u>385</u>	<u>95</u>	<u>0</u>
Total Net Investment Income	<u>8,950,869</u>	<u>1,737,588</u>	<u>57,656</u>	<u>14,383</u>	<u>3,363</u>
Other Additions:					
Settlement of Claims					
Other Revenue		198		4	
Loss on Sale of Properties		(8)			
Transfer In	6,970	45,778			1,351
Total Other Additions	<u>6,970</u>	<u>45,968</u>	<u>0</u>	<u>4</u>	<u>1,351</u>
Total Additions	<u>12,496,253</u>	<u>2,442,446</u>	<u>57,656</u>	<u>28,118</u>	<u>7,234</u>
<b>DEDUCTIONS</b>					
Benefits	5,543,394	1,246,650	30,184	4,247	2,338
Refunds of Contributions	265,487	75,614		65	
Transfer Out	129,737	7,506			675
Intergovernmental Payments					
Administrative Expenses	23,972	12,017	368	292	161
Depreciation Expense	1,536	727			
Interest Expense					
Other Expenses	980	520	10	11	6
Total Deductions	<u>5,965,106</u>	<u>1,343,034</u>	<u>30,562</u>	<u>4,615</u>	<u>3,180</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>6,531,147</u>	<u>1,099,412</u>	<u>27,094</u>	<u>23,503</u>	<u>4,054</u>
<b>NET ASSETS</b>					
Net Assets, September 1, 2005	93,707,816	20,448,700	682,700	161,083	40,131
Restatements					
Net Assets, September 1, 2005, as Restated	<u>93,707,816</u>	<u>20,448,700</u>	<u>682,700</u>	<u>161,083</u>	<u>40,131</u>
Net Assets, August 31, 2006	<u>\$100,238,963</u>	<u>\$ 21,548,112</u>	<u>\$ 709,794</u>	<u>\$ 184,586</u>	<u>\$ 44,185</u>



Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$	\$ 74,602	\$ 60,418	\$	\$ 2,337,344
					326,790
	225,373				1,642,414
	585,636				585,636
	34,612				34,612
			662		268,062
0	845,621	74,602	61,080	0	5,194,858
		17,556			7,459,692
	21,435	6,197	75	53	3,344,538
0	21,435	23,753	75	53	10,804,230
		1		1	40,566
0	21,435	23,752	75	52	10,763,664
					770,715
					716,693
					8,513
0	0	0	0	0	45,509
0	21,435	23,752	75	52	10,809,173
		12		133	145
	53	160	56	184	655
					(8)
27,784		511		25	82,419
27,784	53	683	56	342	83,211
27,784	867,109	99,037	61,211	394	16,087,242
27,664	719,061	60,789	59,951		7,694,278
					341,166
	9,772				147,690
	(66)				(66)
120	2,511	392	297	268	40,398
					2,263
			79		79
	2	11	1,319	7	2,866
27,784	731,280	61,192	61,646	275	8,228,674
0	135,829	37,845	(435)	119	7,858,568
	327,157	293,555	2,026	909	115,664,077
		(18,543)			(18,543)
0	327,157	275,012	2,026	909	115,645,534
\$ 0	\$ 462,986	\$ 312,857	\$ 1,591	\$ 1,028	\$123,504,102



## EXTERNAL INVESTMENT TRUST FUNDS

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The **Texas Government Investment Pool (TexPool) Trust Fund** is a local government investment pool administered by the Texas Treasury Safekeeping Trust Company - Comptroller's office. The investor base consists of cities, counties, school districts, institutions of higher education, special districts, and other public entities of Texas.

The **Texas Treasury Safekeeping Trust Company Municipal Utility District Fund** is an investment pool available for municipal utility districts and is administered by the Texas Treasury Safekeeping Trust Company - Comptroller's office. The function of this fund is to invest moneys on behalf of these legally separate entities.

**State of Texas**  
**Combining Statement of Fiduciary Net Assets –**  
**External Investment Trust Funds**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Texas Government Investment Pool (TexPool) Trust Fund</b>	<b>Texas Treasury Safekeeping Trust Company Municipal Utility District Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 7	\$	\$ 7
Investments:			
U.S. Government	2,303,523		2,303,523
Repurchase Agreements	10,410,758	403	10,411,161
Interest and Dividends Receivable	21,909		21,909
Total Assets	<u>12,736,197</u>	<u>403</u>	<u>12,736,600</u>
<b>LIABILITIES</b>			
Payables:			
Accounts	61,735		61,735
Investment Trades	66,000		66,000
Other Liabilities	772		772
Total Liabilities	<u>128,507</u>	<u>0</u>	<u>128,507</u>
<b>NET ASSETS</b>			
Net Assets Held in Trust for Pool Participants	<u>\$12,607,690</u>	<u>\$ 403</u>	<u>\$12,608,093</u>

# State of Texas

## Combining Statement of Changes in Fiduciary Net Assets – External Investment Trust Funds

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Texas Government Investment Pool (TexPool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
<b>ADDITIONS</b>			
Investment Income:			
From Investing Activities:			
Interest and Investment Income	\$ 667,972	\$ 25	\$ 667,997
Total Investing Income	667,972	25	667,997
Less Investing Activities Expense	7,391		7,391
Net Income from Investing Activities	660,581	25	660,606
Capital Share and Individual Account Transactions:			
Net Increase (Decrease) in Participant Investments	250,545	(357)	250,188
<b>INCREASE IN NET ASSETS</b>	911,126	(332)	910,794
<b>NET ASSETS</b>			
Net Assets, September 1, 2005	11,682,461	735	11,683,196
Restatements	14,103		14,103
Net Assets, September 1, 2005, as Restated	11,696,564	735	11,697,299
Net Assets, August 31, 2006	\$12,607,690	\$ 403	\$12,608,093



## PRIVATE-PURPOSE TRUST FUNDS

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The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties, or local hospital districts that are responsible for indigent health care. The fund is administered by the Texas Comptroller-Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry, and/or barber contributions.

The **Texas Tomorrow Trust Fund** receives money contributed by college saving plan account holders, money acquired from private sources, and income from investment of deposits. The fund may be used only to pay costs of program administration and operations, make payments to institutions of higher education or private or independent institutions, and make refunds to college saving plan account holders.

**State of Texas**  
**Combining Statement of Fiduciary Net Assets –**  
**Private-Purpose Trust Funds**  
**August 31, 2006 (Amounts in Thousands)**

	<b>Tobacco Settlement Permanent Trust (Political Subdivisions)</b>	<b>Texas Insurance Companies Assets Account - Reserve and Custodial Fund</b>	<b>Catastrophe Reserve Trust Fund</b>	<b>Inmate Trust and Employee Service Option Fund</b>	<b>Texas Tomorrow Trust Fund</b>	<b>Other Private- Purpose Trust Funds</b>	<b>Totals</b>
<b>ASSETS</b>							
Cash and Cash Equivalents	\$	\$ 224	\$	\$ 4,036	\$ 60	\$ 22,622	\$ 26,942
Restricted Cash and Cash Equivalents						313	313
Securities Lending Collateral	99,736						99,736
Investments:							
U.S. Government	63,212	1,752		15,993		2,170	83,127
Corporate Equity	318,997					13,926	332,923
Corporate Obligations	73,723					4,941	78,664
Repurchase Agreements		143,694	320,967			1,526	466,187
Foreign Securities	8,325						8,325
Other	1,714,272				175,335	11,591	1,901,198
Receivables:							
Interest and Dividends	5,082				7	49	5,138
Accounts		21	47			156	224
Investment Trades	3,231				599		3,830
Other						443	443
Inventories						1	1
Properties, at Cost, Net of Accumulated Depreciation						1,075	1,075
Other Assets		88,578					88,578
Total Assets	<u>2,286,578</u>	<u>234,269</u>	<u>321,014</u>	<u>20,029</u>	<u>176,001</u>	<u>58,813</u>	<u>3,096,704</u>
<b>LIABILITIES</b>							
Payables:							
Accounts	555			1,055	14	1,536	3,160
Investment Trades	6,939				599		7,538
Interest						40	40
Deferred Revenue					46		46
Obligations/Securities Lending	99,736						99,736
Funds Held for Others		88,578					88,578
Total Liabilities	<u>107,230</u>	<u>88,578</u>	<u>0</u>	<u>1,055</u>	<u>659</u>	<u>1,576</u>	<u>199,098</u>
<b>NET ASSETS</b>							
Net Assets Held in Trust for Individuals, Organizations, and Other Governments	<u>2,179,348</u>	<u>145,691</u>	<u>321,014</u>	<u>18,974</u>	<u>175,342</u>	<u>57,237</u>	<u>2,897,606</u>
Total Net Assets	<u>\$2,179,348</u>	<u>\$ 145,691</u>	<u>\$ 321,014</u>	<u>\$ 18,974</u>	<u>\$ 175,342</u>	<u>\$ 57,237</u>	<u>\$2,897,606</u>



# State of Texas

## Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas Tomorrow Trust Fund	Other Private- Purpose Trust Funds	Totals
<b>ADDITIONS</b>							
Contributions:							
Federal Contributions	\$	\$	\$	\$	\$	\$ 1,418	\$ 1,418
Other Contributions					48,746		48,746
Total Contributions	0	0	0	0	48,746	1,418	50,164
Investment Income:							
From Investing Activities:							
Net Appreciation in Fair Value of Investments	172,489				3,402	(101)	175,790
Interest and Investment Income	35,027	6,449	14,149		3,839	5,894	65,358
Total Investing Income	207,516	6,449	14,149	0	7,241	5,793	241,148
Less Investing Activities Expense					618		618
Net Income from Investing Activities	207,516	6,449	14,149	0	6,623	5,793	240,530
From Securities Lending Activities:							
Securities Lending Income	3,818						3,818
Less Securities Lending Expense:							
Borrower Rebates	3,672						3,672
Net Income from Securities Lending	146	0	0	0	0	0	146
Total Net Investment Income	207,662	6,449	14,149	0	6,623	5,793	240,676
Other Additions:							
Settlement of Claims						3,941	3,941
Other Revenue		28,664	302	106,699	709	3,632	140,006
Total Other Additions	0	28,664	302	106,699	709	7,573	143,947
Total Additions	207,662	35,113	14,451	106,699	56,078	14,784	434,787
<b>DEDUCTIONS</b>							
Benefits					11,523	524	12,047
Transfer Out			1,000			74	1,074
Intergovernmental Payments	72,071					2,643	74,714
Administrative Expenses	6,438				727	64	7,229
Depreciation Expense						39	39
Settlement of Claims		13,468	35,000			4,665	53,133
Interest Expense						37	37
Other Expenses		3,072	62	105,379		1,374	109,887
Total Deductions	78,509	16,540	36,062	105,379	12,250	9,420	258,160
<b>INCREASE (DECREASE) IN NET ASSETS</b>	129,153	18,573	(21,611)	1,320	43,828	5,364	176,627
<b>NET ASSETS</b>							
Net Assets, September 1, 2005	2,050,195	127,118	342,625	17,654	131,514	51,873	2,720,979
Net Assets, August 31, 2006	<u>\$2,179,348</u>	<u>\$ 145,691</u>	<u>\$ 321,014</u>	<u>\$ 18,974</u>	<u>\$ 175,342</u>	<u>\$ 57,237</u>	<u>\$2,897,606</u>



## AGENCY FUNDS

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The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident, and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA), and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority, and special purpose district authorizing the collection.



# State of Texas

## Combining Statement of Fiduciary Net Assets – Agency Funds

August 31, 2006 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident, and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA, and SPD Sales Tax Trust Account	Other Agency Funds	Totals
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 38	\$ 145	\$ 15,878	\$ 622,964	\$ 102,399	\$ 741,424
Investments:						
U.S. Government	503,758				128	503,886
Corporate Equity					105,595	105,595
Corporate Obligations					84	84
Repurchase Agreements					15,643	15,643
Other					21,602	21,602
Receivables:						
Other Intergovernmental					1,273	1,273
Interest and Dividends	2,876				2	2,878
Accounts					20,921	20,921
Other					38	38
Due From Other Funds					1	1
Due From Component Units					274	274
Other Assets		823,654	693,764		144,982	1,662,400
Total Assets	<u>\$ 506,672</u>	<u>\$ 823,799</u>	<u>\$ 709,642</u>	<u>\$ 622,964</u>	<u>\$ 412,942</u>	<u>\$3,076,019</u>
<b>LIABILITIES</b>						
Payables:						
Accounts					14,618	14,618
Other Intergovernmental				622,964	2,605	625,569
Due To Other Funds					1,586	1,586
Interfund Payable					3	3
Funds Held for Others	506,672	823,799	709,642		394,130	2,434,243
Total Liabilities	<u>\$ 506,672</u>	<u>\$ 823,799</u>	<u>\$ 709,642</u>	<u>\$ 622,964</u>	<u>\$ 412,942</u>	<u>\$3,076,019</u>

**State of Texas**  
**Combining Statement of Changes in Assets and Liabilities –**  
**Agency Funds**  
**August 31, 2006 (Amounts in Thousands)**

	Beginning Balance September 1, 2005	Additions	Deductions	Ending Balance August 31, 2006
<b>Texas Public Finance Authority</b>				
<b>Bond Escrow Account</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 40	\$	\$ 2	\$ 38
Investments	564,705	22,346	83,293	503,758
Receivables:				
Interest and Dividends	6,551		3,675	2,876
Total Assets	<u>\$ 571,296</u>	<u>\$ 22,346</u>	<u>\$ 86,970</u>	<u>\$ 506,672</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 571,296	\$	\$ 64,624	\$ 506,672
Total Liabilities	<u>\$ 571,296</u>	<u>\$ 0</u>	<u>\$ 64,624</u>	<u>\$ 506,672</u>
<b>Life, Health, Accident, and Casualty</b>				
<b>Insurance Companies Trust Account</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 107	\$ 147	\$ 109	\$ 145
Other Assets	799,227	823,654	799,227	823,654
Total Assets	<u>\$ 799,334</u>	<u>\$ 823,801</u>	<u>\$ 799,336</u>	<u>\$ 823,799</u>
<b>LIABILITIES</b>				
Accounts Payable	\$	\$ 3	\$ 3	\$
Funds Held for Others	799,334	823,801	799,336	823,799
Total Liabilities	<u>\$ 799,334</u>	<u>\$ 823,804</u>	<u>\$ 799,339</u>	<u>\$ 823,799</u>
<b>Texas Workers' Compensation</b>				
<b>Self Insurance Fund</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 13,355	\$ 16,928	\$ 14,405	\$ 15,878
Other Assets	705,633	693,764	705,633	693,764
Total Assets	<u>\$ 718,988</u>	<u>\$ 710,692</u>	<u>\$ 720,038</u>	<u>\$ 709,642</u>
<b>LIABILITIES</b>				
Accounts Payable	\$	\$ 566	\$ 566	\$
Funds Held for Others	718,988	16,929	26,275	709,642
Total Liabilities	<u>\$ 718,988</u>	<u>\$ 17,495</u>	<u>\$ 26,841</u>	<u>\$ 709,642</u>
<b>City, County, MTA, and SPD Sales</b>				
<b>Tax Trust Account</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 578,392	\$ 6,276,101	\$ 6,231,529	\$ 622,964
Total Assets	<u>\$ 578,392</u>	<u>\$ 6,276,101</u>	<u>\$ 6,231,529</u>	<u>\$ 622,964</u>
<b>LIABILITIES</b>				
Payables:				
Accounts	\$	\$ 5,310,034	\$ 5,310,034	\$
Other Intergovernmental	578,392	622,964	578,392	622,964
Funds Held for Others		6,854,485	6,854,485	
Total Liabilities	<u>\$ 578,392</u>	<u>\$ 12,787,483</u>	<u>\$ 12,742,911</u>	<u>\$ 622,964</u>

Concluded on the following page

**State of Texas**  
**Combining Statement of Changes in Assets and Liabilities –**  
**Agency Funds (concluded)**  
**August 31, 2006 (Amounts in Thousands)**

	Beginning Balance September 1, 2005	Additions	Deductions	Ending Balance August 31, 2006
<b>Other Agency Funds</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 87,713	\$ 6,958,812	\$ 6,944,126	\$ 102,399
Investments	243,029	127,714	227,691	143,052
Receivables:				
Other Intergovernmental	1,763	2	492	1,273
Interest and Dividends	2	1	1	2
Accounts	16,443	133,963	129,485	20,921
Other	38	38	38	38
Due From Other Funds	46	284	329	1
Due From Component Units		274		274
Interfund Receivable		7,894	7,894	
Other Assets	129,762	15,220		144,982
Total Assets	<u>\$ 478,796</u>	<u>\$ 7,244,202</u>	<u>\$ 7,310,056</u>	<u>\$ 412,942</u>
<b>LIABILITIES</b>				
Payables:				
Accounts	\$ 11,555	\$ 1,682,342	\$ 1,679,279	\$ 14,618
Other Intergovernmental	2,458	147		2,605
Due To Other Funds	359	2,480	1,253	1,586
Interfund Payable	29	7,716	7,742	3
Funds Held for Others	464,395	7,086,095	7,156,360	394,130
Total Liabilities	<u>\$ 478,796</u>	<u>\$ 8,778,780</u>	<u>\$ 8,844,634</u>	<u>\$ 412,942</u>
<b>Totals – All Agency Funds</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 679,607	\$ 13,251,988	\$ 13,190,171	\$ 741,424
Investments	807,734	150,060	310,984	646,810
Receivables:				
Other Intergovernmental	1,763	2	492	1,273
Interest and Dividends	6,553	1	3,676	2,878
Accounts	16,443	133,963	129,485	20,921
Other	38	38	38	38
Due From Other Funds	46	284	329	1
Due From Component Units		274		274
Interfund Receivable		7,894	7,894	
Other Assets	1,634,622	1,532,638	1,504,860	1,662,400
Total Assets	<u>\$ 3,146,806</u>	<u>\$ 15,077,142</u>	<u>\$ 15,147,929</u>	<u>\$ 3,076,019</u>
<b>LIABILITIES</b>				
Payables:				
Accounts	\$ 11,555	\$ 6,992,945	\$ 6,989,882	\$ 14,618
Other Intergovernmental	580,850	623,111	578,392	625,569
Due To Other Funds	359	2,480	1,253	1,586
Interfund Payable	29	7,716	7,742	3
Funds Held for Others	2,554,013	14,781,310	14,901,080	2,434,243
Total Liabilities	<u>\$ 3,146,806</u>	<u>\$ 22,407,562</u>	<u>\$ 22,478,349</u>	<u>\$ 3,076,019</u>





STATE *of* TEXAS



DISCRETELY  
PRESENTED  
COMPONENT  
UNITS



WEST CAVE PRESERVE  
CENTRAL TEXAS

## DISCRETELY PRESENTED COMPONENT UNITS

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There are 15 discretely presented component units that are considered material to the state. Details regarding each component unit are included in Note 19. A Statement of Net Assets and a Statement of Activities has been prepared to report the breakdown of the following discretely presented component units.

**State Bar of Texas**  
**Texas Agricultural Finance Authority**  
**Texas On-Site Wastewater Treatment Research Council**  
**Texas Appraiser Licensing and Certification Board**  
**Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.**  
**Texas Guaranteed Student Loan Corporation**  
**Texas Boll Weevil Eradication Foundation, Inc.**  
**Texas Water Resources Finance Authority**  
**Texas Small Business Industrial Development Corporation**  
**Texas Economic Development Corporation**  
**Texas Disaster Relief Fund**  
**Surplus Lines Stamping Office of Texas**  
**Texas Health Reinsurance System**  
**Texas Health Insurance Risk Pool**  
**Texas State Affordable Housing Corporation**

**State of Texas**  
**Combining Statement of Net Assets – Component Units**  
**August 31, 2006 (Amounts in Thousands)\***

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 2,569	\$ 16,282	\$	\$	\$ 3	\$ 16,525
Short Term Investments	28,417					
Restricted:						
Cash and Cash Equivalents						
Short Term Investments						
Loans and Contracts						
Receivables:						
Federal						24,142
Other Intergovernmental Accounts	1,362					
Interest and Dividends		222				3,780
Other						
Due From Primary Government			254	49		
Inventories	658			2		
Prepaid Items	717	123				
Loans and Contracts		7,776				
Other Current Assets		6				2,860
Total Current Assets	<u>33,723</u>	<u>24,409</u>	<u>254</u>	<u>51</u>	<u>3</u>	<u>47,307</u>
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts						
Investments						521,226
Other Receivables						
Capital Assets:						
Non-Depreciable	248	131				3,315
Depreciable	13,048			7		44,549
Accumulated Depreciation	(9,377)			(7)		(12,529)
Other Non-Current Assets						1,928
Total Non-Current Assets	<u>3,919</u>	<u>131</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>558,489</u>
Total Assets	<u>37,642</u>	<u>24,540</u>	<u>254</u>	<u>51</u>	<u>3</u>	<u>605,796</u>

*Continued on the following page*

**State of Texas**  
**Combining Statement of Net Assets – Component Units** (continued)  
 August 31, 2006 (Amounts in Thousands)\*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
<b>LIABILITIES</b>						
Current Liabilities:						
Payables:						
Accounts	\$ 2,318	\$ 6	\$ 1	\$ 5	\$	\$ 6,922
Payroll				35		
Federal Interest						22,162
Due To Primary Government	274					
Deferred Revenue	8,495					
Capital Lease Obligations	198					
Employees' Compensable Leave	739	4		16		1,606
Notes and Loans Payable	94	24,877				1,548
Revenue Bonds Payable						
Liabilities Payable From Restricted Assets						4,208
Other Current Liabilities	60					
Total Current Liabilities	<u>12,178</u>	<u>24,887</u>	<u>1</u>	<u>56</u>	<u>0</u>	<u>36,446</u>
Non-Current Liabilities:						
Capital Lease Obligations	119					
Employees' Compensable Leave	361	4		8		618
Notes and Loans Payable	187					9,616
Liabilities Payable From Restricted Assets						212,931
Revenue Bonds Payable						
Other Non-Current Liabilities						411
Total Non-Current Liabilities	<u>667</u>	<u>4</u>	<u>0</u>	<u>8</u>	<u>0</u>	<u>223,576</u>
Total Liabilities	<u>12,845</u>	<u>24,891</u>	<u>1</u>	<u>64</u>	<u>0</u>	<u>260,022</u>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	215					24,172
Restricted for:						
Education						34,947
Other						
Unrestricted	<u>24,582</u>	<u>(351)</u>	<u>253</u>	<u>(13)</u>	<u>3</u>	<u>286,655</u>
Total Net Assets	<u>\$ 24,797</u>	<u>\$ (351)</u>	<u>\$ 253</u>	<u>\$ (13)</u>	<u>\$ 3</u>	<u>\$ 345,774</u>

Continued on the following page

\* Amounts at August 31, 2006, unless otherwise indicated in Note 19.

**State of Texas**  
**Combining Statement of Net Assets – Component Units** (continued)  
**August 31, 2006 (Amounts in Thousands)\***

	<b>Texas Boll Weevil Eradication Foundation, Inc.</b>	<b>Texas Water Resources Finance Authority</b>	<b>Texas Small Business Industrial Development Corporation</b>	<b>Texas Economic Development Corporation</b>	<b>Texas Disaster Relief Fund</b>	<b>Surplus Lines Stamping Office of Texas</b>
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 1,079	\$	\$ 85,567	\$	\$ 325	\$ 8,257
Short Term Investments	73,534	20,300		1,115		
Restricted:						
Cash and Cash Equivalents					332	
Short Term Investments						
Loans and Contracts						
Receivables:						
Federal	13,803					
Other Intergovernmental	223					
Accounts	7,165					358
Interest and Dividends		852	203		3	
Other	610					116
Due From Primary Government						
Inventories	173					
Prepaid Items	415		3			
Loans and Contracts		4,422				
Other Current Assets						
Total Current Assets	<u>97,002</u>	<u>25,574</u>	<u>85,773</u>	<u>1,115</u>	<u>660</u>	<u>8,731</u>
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts		31,852	14,550		638	
Investments		18,942				
Other Receivables	4,263					
Capital Assets:						
Non-Depreciable						
Depreciable	24,974					3,261
Accumulated Depreciation	(18,844)					(2,329)
Other Non-Current Assets						18
Total Non-Current Assets	<u>10,393</u>	<u>50,794</u>	<u>14,550</u>	<u>0</u>	<u>638</u>	<u>950</u>
Total Assets	<u>107,395</u>	<u>76,368</u>	<u>100,323</u>	<u>1,115</u>	<u>1,298</u>	<u>9,681</u>

*Continued on the following page*

**State of Texas**  
**Combining Statement of Net Assets – Component Units** (continued)  
August 31, 2006 (Amounts in Thousands)\*

	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund	Surplus Lines Stamping Office of Texas
<b>LIABILITIES</b>						
Current Liabilities:						
Payables:						
Accounts	\$ 249	\$	\$ 51	\$	\$	\$ 25
Payroll						
Federal						
Interest		62	290			
Due To Primary Government		26				
Deferred Revenue						
Capital Lease Obligations						
Employees' Compensable Leave	871					
Notes and Loans Payable	19,775					
Revenue Bonds Payable		5,485				
Liabilities Payable From Restricted Assets						
Other Current Liabilities	2,293					213
Total Current Liabilities	<u>23,188</u>	<u>5,573</u>	<u>341</u>	<u>0</u>	<u>0</u>	<u>238</u>
Non-Current Liabilities:						
Capital Lease Obligations						
Employees' Compensable Leave	347					
Notes and Loans Payable	126,500					
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable		15,830	99,335			
Other Non-Current Liabilities						
Total Non-Current Liabilities	<u>126,847</u>	<u>15,830</u>	<u>99,335</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>150,035</u>	<u>21,403</u>	<u>99,676</u>	<u>0</u>	<u>0</u>	<u>238</u>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	216					932
Restricted for:						
Education						
Other						
Unrestricted	(42,856)	54,965	647	1,115	1,298	8,511
Total Net Assets	<u>\$ (42,640)</u>	<u>\$ 54,965</u>	<u>\$ 647</u>	<u>\$ 1,115</u>	<u>\$ 1,298</u>	<u>\$ 9,443</u>

Continued on the following page

\* Amounts at August 31, 2006, unless otherwise indicated in Note 19.

**State of Texas**  
**Combining Statement of Net Assets – Component Units** (continued)  
**August 31, 2006 (Amounts in Thousands)\***

	<b>Texas Health Reinsurance System</b>	<b>Texas Health Insurance Risk Pool</b>	<b>Texas State Affordable Housing Corporation</b>	<b>Totals</b>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 485	\$ 9,483	\$ 1,002	\$ 141,577
Short Term Investments		55,381	4,940	183,687
Restricted:				
Cash and Cash Equivalents			892	1,224
Short Term Investments			52,200	52,200
Loans and Contracts			254	254
Receivables:				
Federal				37,945
Other Intergovernmental				223
Accounts		1,139	558	10,582
Interest and Dividends			768	5,828
Other	6,249			6,975
Due From Primary Government				303
Inventories				833
Prepaid Items			24	1,282
Loans and Contracts				12,198
Other Current Assets				2,866
Total Current Assets	<u>6,734</u>	<u>66,003</u>	<u>60,638</u>	<u>457,977</u>
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents			170	170
Investments			85,564	85,564
Loans and Contracts			3,375	3,375
Loans and Contracts				47,040
Investments				540,168
Other Receivables				4,263
Capital Assets:				
Non-Depreciable				3,694
Depreciable		33	217	86,089
Accumulated Depreciation		(20)	(180)	(43,286)
Other Non-Current Assets		5	3,456	5,407
Total Non-Current Assets	<u>0</u>	<u>18</u>	<u>92,602</u>	<u>732,484</u>
Total Assets	<u>6,734</u>	<u>66,021</u>	<u>153,240</u>	<u>1,190,461</u>

*Concluded on the following page*



**State of Texas**  
**Combining Statement of Net Assets – Component Units** (concluded)  
**August 31, 2006 (Amounts in Thousands)\***

	<b>Texas Health Reinsurance System</b>	<b>Texas Health Insurance Risk Pool</b>	<b>Texas State Affordable Housing Corporation</b>	<b>Totals</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Payables:				
Accounts	\$ 24	\$ 1,312	\$ 65	\$ 10,978
Payroll				35
Federal				22,162
Interest			1,705	2,057
Due To Primary Government				300
Deferred Revenue		22,456		30,951
Capital Lease Obligations				198
Employees' Compensable Leave				3,236
Notes and Loans Payable			14	46,308
Revenue Bonds Payable			602	6,087
Liabilities Payable From Restricted Assets				4,208
Other Current Liabilities	6,710	20,363	25	29,664
Total Current Liabilities	<u>6,734</u>	<u>44,131</u>	<u>2,411</u>	<u>156,184</u>
Non-Current Liabilities:				
Capital Lease Obligations				119
Employees' Compensable Leave				1,338
Notes and Loans Payable			2,070	138,373
Liabilities Payable From Restricted Assets				212,931
Revenue Bonds Payable			140,896	256,061
Other Non-Current Liabilities		21,890	1,553	23,854
Total Non-Current Liabilities	<u>0</u>	<u>21,890</u>	<u>144,519</u>	<u>632,676</u>
Total Liabilities	<u>6,734</u>	<u>66,021</u>	<u>146,930</u>	<u>788,860</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt			36	25,571
Restricted for:				
Education				34,947
Other			3,629	3,629
Unrestricted			2,645	337,454
Total Net Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,310</u>	<u>\$ 401,601</u>

\* Amounts at August 31, 2006, unless otherwise indicated in Note 19.

# State of Texas

## Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)\*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
<b>EXPENSES:</b>					
Salaries and Wages	\$ 14,313	\$ 85	\$ 2	\$ 280	\$
Payroll Related Costs	3,278	19		80	
Professional Fees and Services	2,235	37	170	7	
Travel	1,864	1	16	6	
Materials and Supplies	1,504	1	2	17	
Communication and Utilities	1,428			4	
Repairs and Maintenance	432		2	1	
Rentals and Leases	1,144			39	
Printing and Reproduction	2,658				
Claims and Judgments	415				
Cost of Goods Sold	535				
Depreciation and Amortization	944				
Other Financing Fees		21,326			
Public Assistance Payments			53		
Direct Interest Expense		1,119			
Interest Expense - Other					
Other Expenses	7,537	1,305	39	30	
Total Expenses	<u>38,287</u>	<u>23,893</u>	<u>284</u>	<u>464</u>	<u>0</u>
<b>PROGRAM REVENUES:</b>					
Charges for Services	38,880	919		22	
Operating Grants and Contributions	907				
Total Program Revenues	<u>39,787</u>	<u>919</u>	<u>0</u>	<u>22</u>	<u>0</u>
Net Program Revenues (Expenses)	<u>1,500</u>	<u>(22,974)</u>	<u>(284)</u>	<u>(442)</u>	<u>0</u>
<b>GENERAL REVENUES:</b>					
Unrestricted Investment Earnings		1,309			
Other Revenues		22,459	298	444	
Total General Revenues	<u>0</u>	<u>23,768</u>	<u>298</u>	<u>444</u>	<u>0</u>
Change in Net Assets	<u>1,500</u>	<u>794</u>	<u>14</u>	<u>2</u>	<u>0</u>
Net Assets, September 1, 2005	<u>23,297</u>	<u>(1,145)</u>	<u>239</u>	<u>(15)</u>	<u>3</u>
Net Assets, August 31, 2006	<u>\$ 24,797</u>	<u>\$ (351)</u>	<u>\$ 253</u>	<u>\$ (13)</u>	<u>\$ 3</u>

\* Amounts for the fiscal year ended August 31, 2006, unless otherwise indicated in Note 19.

Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund	Surplus Lines Stamping Office of Texas
\$ 35,002	\$ 29,028	\$ 209	\$	\$ 27	\$	\$ 1,088
9,386		31		2		379
12,024	739	2	109	241	30	332
2,072	497			56		106
2,290	27,474	1		566		91
1,568	940			6		38
1,971	2,890					42
1,294	1,035			22		198
654				59		21
3,022						550
9,192	288					
		4,596				
		1,754				
565	5,576		3,170			
5,983	23,768	21	357	29	1	146
85,023	92,235	6,614	3,636	1,008	31	2,991
1,698	66,096			71		3,090
147,318	43,260	4,814	184	1,357	1,329	181
149,016	109,356	4,814	184	1,428	1,329	3,271
63,993	17,121	(1,800)	(3,452)	420	1,298	280
(586)	2,258		3,794	44		
9,192	2,846			10		
8,606	5,104	0	3,794	54	0	0
72,599	22,225	(1,800)	342	474	1,298	280
273,175	(64,865)	56,765	305	641		9,163
\$ 345,774	\$ (42,640)	\$ 54,965	\$ 647	\$ 1,115	\$ 1,298	\$ 9,443

Concluded on the following page

# State of Texas

## Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2006 (Amounts in Thousands)\*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
<b>EXPENSES</b>				
Salaries and Wages	\$	\$ 273	\$ 851	\$ 81,158
Payroll Related Costs				13,175
Professional Fees and Services		15,647	174	31,747
Travel		1	76	4,695
Materials and Supplies		24		31,970
Communication and Utilities				3,984
Repairs and Maintenance				5,338
Rentals and Leases		63	123	3,918
Printing and Reproduction				3,392
Claims and Judgments				415
Cost of Goods Sold				535
Depreciation and Amortization		5	294	4,815
Other Financing Fees				30,806
Public Assistance Payments				4,649
Direct Interest Expense				2,873
Interest Expense - Other			5,096	14,407
Other Expenses	3,768	234,625	2,667	280,276
Total Expenses	<u>3,768</u>	<u>250,638</u>	<u>9,281</u>	<u>518,153</u>
<b>PROGRAM REVENUES</b>				
Charges for Services	3,753	248,441	2,207	365,177
Operating Grants and Contributions	15	2,197	3,858	205,420
Total Program Revenues	<u>3,768</u>	<u>250,638</u>	<u>6,065</u>	<u>570,597</u>
Net Program Revenues (Expenses)	<u>0</u>	<u>0</u>	<u>(3,216)</u>	<u>52,444</u>
<b>GENERAL REVENUES</b>				
Unrestricted Investment Earnings				6,819
Other Revenues			57	35,306
Total General Revenues	<u>0</u>	<u>0</u>	<u>57</u>	<u>42,125</u>
Change in Net Assets	<u>0</u>	<u>0</u>	<u>(3,159)</u>	<u>94,569</u>
Net Assets, September 1, 2005			9,469	307,032
Net Assets, August 31, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,310</u>	<u>\$401,601</u>

\* Amounts for the fiscal year ended August 31, 2006, unless otherwise indicated in Note 19.

# STATE *of* TEXAS



## STATISTICAL SECTION



## THE COASTAL BEND

## State of Texas

### Index for Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information, and supplementary information says about the state's overall financial health.

Contents	Pages
<b>Financial Trends Information</b> . . . . .	229 – 233
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.	
<b>Revenue Capacity Information</b> . . . . .	234 – 236
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.	
<b>Debt Capacity Information</b> . . . . .	237 – 240
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.	
<b>Demographic and Economic Information</b> . . . . .	241 – 242
These schedules provide demographic and economic indicators intended to help the reader understand the socioeconomic environment within which the state's financial activities take place.	
<b>Operating Information</b> . . . . .	243 – 245
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports database for the relevant years. GASB Statements No. 34 and No. 35 were implemented in 2002; schedules presenting Government-wide information includes information beginning in that year.





**State of Texas**  
**Statistical Section – Financial Trends**  
**Net Assets by Component**  
**Last Five Fiscal Years\***  
(Amounts in Millions)

	2002	2003	2004	2005	2006
<b>GOVERNMENTAL ACTIVITIES</b>					
Invested in Capital Assets, Net of Related Debt	\$ 47,322	\$ 49,254	\$ 51,407	\$ 53,815	\$ 55,473
Restricted	20,089	20,846	22,213	24,110	25,993
Unrestricted	2,065	(28)	541	3,753	8,696
Total Governmental Activities Net Assets	<u>69,476</u>	<u>70,072</u>	<u>74,161</u>	<u>81,678</u>	<u>90,162</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Invested in Capital Assets, Net of Related Debt	5,142	5,737	6,464	6,253	6,871
Restricted	14,413	15,168	17,628	20,581	22,812
Unrestricted	5,841	6,167	5,805	7,076	8,056
Total Business-type Activities Net Assets	<u>25,396</u>	<u>27,072</u>	<u>29,897</u>	<u>33,910</u>	<u>37,739</u>
<b>PRIMARY GOVERNMENT</b>					
Invested in Capital Assets, Net of Related Debt	52,464	54,991	57,871	60,068	62,344
Restricted	34,502	36,014	39,841	44,691	48,805
Unrestricted	7,906	6,139	6,346	10,829	16,752
Total Primary Government Net Assets	<u>\$ 94,872</u>	<u>\$ 97,144</u>	<u>\$ 104,058</u>	<u>\$ 115,588</u>	<u>\$ 127,901</u>

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the net assets information is available only from 2002.

Source: State of Texas Financial Statements 2002-2006

**State of Texas**  
**Statistical Section – Financial Trends**  
**Changes in Net Assets**  
**Last Five Fiscal Years\***  
(Amounts in Thousands)

	2002	2003	2004	2005	2006
<b>GOVERNMENTAL ACTIVITIES:</b>					
<b>Expenses</b>					
General Government	\$ 1,947,049	\$ 2,026,241	\$ 2,234,369	\$ 2,206,793	\$ 2,681,117
Education	15,831,226	15,935,961	16,250,938	16,293,851	18,025,550
Employee Benefits	14,757	22,644	60,536	50,544	56,718
Teacher Retirement Benefits	1,201,886	2,435,727	2,269,667	2,083,530	1,932,325
Health and Human Services	22,817,118	24,742,714	25,060,588	27,302,426	28,808,315
Public Safety and Corrections	4,170,817	4,207,856	4,030,120	4,086,450	5,084,923
Transportation	3,576,274	3,562,159	3,476,342	3,766,301	4,452,154
Natural Resources and Recreation	736,111	835,139	864,508	1,070,481	961,178
Regulatory Services	273,023	324,567	375,951	349,420	282,067
Indirect Interest on Long-Term Debt	403,784	366,847	338,693	417,854	54,121
Total Expenses	<u>50,972,045</u>	<u>54,459,855</u>	<u>54,961,712</u>	<u>57,627,650</u>	<u>62,338,468</u>
<b>Program Revenues</b>					
<b>Charges for Services:</b>					
General Government	1,378,004	1,378,735	1,695,987	802,588	1,199,924
Education	236,776	485,676	520,621	594,702	626,224
Employee Benefits	383	112	171	97	120
Teacher Retirement Benefits				10	93,694
Health and Human Services	710,167	821,773	838,377	1,124,402	1,177,825
Public Safety and Corrections	144,120	148,420	164,959	463,097	441,803
Transportation	988,612	974,627	1,016,809	1,342,073	1,373,339
Natural Resources and Recreation	453,990	437,834	473,608	716,981	570,872
Regulatory Services	63,986	92,875	212,919	534,469	596,705
<b>Operating Grants and Contributions</b>	17,563,832	22,801,211	24,501,850	26,667,982	28,979,226
<b>Capital Grants and Contributions</b>	2,191,470	2,570,634	2,773,764	3,253,051	2,803,006
Total Program Revenues	<u>23,731,340</u>	<u>29,711,897</u>	<u>32,199,065</u>	<u>35,499,452</u>	<u>37,862,738</u>
Total Governmental Activities Net Program (Expense)	<u>(27,240,705)</u>	<u>(24,747,958)</u>	<u>(22,762,647)</u>	<u>(22,128,198)</u>	<u>(24,475,730)</u>
<b>General Revenues</b>					
Taxes:					
Sales and Use	14,249,422	14,349,758	15,564,085	16,260,689	18,475,176
Motor Vehicle and Manufactured Housing	2,891,742	2,795,211	2,665,258	2,897,031	3,046,856
Motor Fuels	2,687,798	2,790,936	2,931,753	2,915,680	3,053,476
Franchise	1,999,005	1,532,820	1,657,141	2,203,578	2,632,780
Oil and Natural Gas Production	640,615	1,531,275	1,918,989	2,409,276	3,441,638
Insurance Occupation	973,279	1,179,553	1,192,829	1,213,627	1,238,846
Cigarette and Tobacco	536,464	583,159	540,404	596,569	547,000
Other	1,454,357	1,405,325	1,426,026	1,435,701	1,558,073
Unrestricted Investment Earnings	383,608	239,198	211,239	327,516	760,207
Federal Jobs and Growth Tax Relief Funds		354,535	354,535		
Settlement of Claims	512,579	563,196	523,518	885,975	583,787
Gain on Sale of Capital Assets		6,359	31,189	8,461	2,762
Other General Revenues	618,981	787,866	723,157	822,652	1,071,679
<b>Capital Contributions</b>		600	944	107	1,449
<b>Transfers</b>	(3,171,399)	(3,069,447)	(2,867,137)	(2,966,197)	(3,513,639)
Total General Revenues, Contributions, and Transfers	<u>23,776,451</u>	<u>25,050,344</u>	<u>26,873,930</u>	<u>29,010,665</u>	<u>32,900,090</u>
Change in Net Assets – Governmental Activities	<u>(3,464,254)</u>	<u>302,386</u>	<u>4,111,283</u>	<u>6,882,467</u>	<u>8,424,360</u>

*Concluded on the following page*

\* The state did not begin reporting Government-wide Financial Statements until it implemented GASB Statements No. 34 and No. 35 in 2002.

Source: State of Texas Financial Statements 2002-2006

**State of Texas**  
**Statistical Section – Financial Trends**  
**Changes in Net Assets**  
**Last Five Fiscal Years\* (concluded)**  
**(Amounts in Thousands)**

	2002	2003	2004	2005	2006
<b>BUSINESS-TYPE ACTIVITIES:</b>					
<b>Expenses</b>					
General Government	\$ 246,183	\$ 235,098	\$ 187,064	\$ 142,142	\$ 162,499
Education	12,584,976	13,340,397	13,538,233	14,716,405	15,982,582
Employee Benefits		517,912	615,692		
Teacher Retirement Benefits				761,240	813,133
Health and Human Services	2,712,361	2,964,169	2,203,096	1,540,459	1,253,431
Public Safety and Corrections	69,235	68,419	68,828	71,308	73,775
Transportation	13,011	16,937	22,725	346	16,339
Natural Resources and Recreation	149,767	157,902	146,815	264,707	284,241
Regulatory Services	2,096				
Lottery	2,034,639	2,163,670	2,426,019	2,594,241	2,687,084
Total Expenses	<u>17,812,268</u>	<u>19,464,504</u>	<u>19,208,472</u>	<u>20,090,848</u>	<u>21,273,084</u>
<b>Program Revenues</b>					
<b>Charges for Services:</b>					
General Government	32,475	50,669	44,166	27,947	37,245
Education	5,108,647	5,549,390	5,845,956	6,662,679	7,284,371
Employee Benefits		584,709	758,255		
Teacher Retirement Benefits				823,910	861,648
Health and Human Services	1,129,885	1,603,241	1,783,807	1,963,403	1,862,804
Public Safety and Corrections	67,809	71,694	75,094	77,521	79,032
Transportation			39,162	14	13
Natural Resources and Recreation	2,377	3,002	3,911	22,106	33,716
Lottery	2,967,271	3,131,532	3,488,941	3,663,414	3,775,491
<b>Operating Grants and Contributions</b>	3,299,297	6,244,537	6,356,243	8,086,139	7,200,099
<b>Capital Grants and Contributions</b>	51,930	162,991	272,997	211,726	155,541
Total Program Revenues	<u>12,659,691</u>	<u>17,401,765</u>	<u>18,668,532</u>	<u>21,538,859</u>	<u>21,289,960</u>
Total Business-Type Activities					
Net Program Revenue (Expense)	<u>(5,152,577)</u>	<u>(2,062,739)</u>	<u>(539,940)</u>	<u>1,448,011</u>	<u>16,876</u>
<b>General Revenues</b>					
Unrestricted Investment Earnings	108,831	28,020	193,347	68,423	55,150
Settlement of Claims	2,579	5	4	20	94
Gain on Sale of Capital Assets	750			6,431	276
Other General Revenue	301,020	329,235	194,474	126,957	91,017
<b>Capital Contributions</b>	112,088	1,318	2,715	133	3,874
<b>Contributions to Permanent and Term Endowments</b>	101,473	235,997	235,182	145,919	123,939
<b>Special Items</b>					(38,898)
<b>Extraordinary Items</b>	603,679	36,532	(13,401)		
<b>Transfers</b>	<u>3,171,399</u>	<u>3,069,447</u>	<u>2,867,137</u>	<u>2,966,197</u>	<u>3,513,639</u>
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	<u>4,401,819</u>	<u>3,700,554</u>	<u>3,479,458</u>	<u>3,314,080</u>	<u>3,749,091</u>
Change in Net Assets – Business-Type Activities	<u>(750,758)</u>	<u>1,637,815</u>	<u>2,939,518</u>	<u>4,762,091</u>	<u>3,765,967</u>
Change in Net Assets – Primary Government	<u>\$ (4,215,012)</u>	<u>\$ 1,940,201</u>	<u>\$ 7,050,801</u>	<u>\$ 11,644,558</u>	<u>\$ 12,190,327</u>

**State of Texas**  
**Statistical Section – Financial Trends**  
**Fund Balances – Governmental Funds**  
**Last Five Fiscal Years\***  
(Amounts in Millions)

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>GENERAL FUND</b>					
Reserved	\$ 1,430	\$ 1,042	\$ 1,185	\$ 1,752	\$ 1,648
Unreserved	(369)	(2,326)	(1,562)	286	5,673
Total General Fund	<u>\$ 1,061</u>	<u>\$ (1,284)</u>	<u>\$ (377)</u>	<u>\$ 2,038</u>	<u>\$ 7,321</u>
<b>ALL OTHER GOVERNMENTAL FUNDS</b>					
Reserved	\$ 19,187	\$ 20,485	\$ 21,850	\$ 24,275	\$ 25,999
Unreserved					
Special Revenue	1,669	1,256	1,309	1,460	910
Capital Projects	13	14	15		7
Permanent	429	458	492	546	575
Total All Other Governmental Funds	<u>\$ 21,298</u>	<u>\$ 22,213</u>	<u>\$ 23,666</u>	<u>\$ 26,281</u>	<u>\$ 27,491</u>

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, information for fund balances is available only for the line-items presented beginning in 2002

Source: State of Texas Financial Statements 2002-2006

**State of Texas**  
**Statistical Section – Financial Trends**  
**Changes in Fund Balances – Governmental Funds**  
**Last Ten Fiscal Years\***  
**(Amounts in Millions)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>REVENUES BY SOURCE</b>										
Taxes	\$ 21,071	\$ 22,590	\$ 23,499	\$ 25,226	\$ 27,045	\$ 25,123	\$ 25,939	\$ 27,976	\$ 29,830	\$ 33,867
Federal	14,043	14,209	15,316	16,170	17,319	20,307	23,017	24,382	25,851	28,212
Licenses, Fees and Permits	2,491	2,741	2,826	2,915	2,960	2,815	2,921	3,332	3,590	4,011
Interest and Other Investment Income	1,417	1,250	1,328	1,578	1,705	(815)	2,118	2,435	3,317	3,218
Land Income	13	15	10	11	46	179	298	482	544	462
Settlement of Claims	13	18	1,118	324	403	513	563	523	883	583
Sales of Goods and Services	636	610	664	578	689	962	1,131	1,109	1,445	1,503
Other	923	888	1,374	1,227	1,451	1,273	1,464	1,754	1,918	2,159
Total Revenues	40,607	42,321	46,135	48,029	51,618	50,357	57,451	61,993	67,378	74,015
<b>EXPENDITURES BY FUNCTION</b>										
General Government	1,342	1,496	1,673	1,798	1,902	1,846	1,961	2,191	2,151	2,530
Education	12,429	12,726	12,640	14,743	15,057	15,739	15,927	16,220	16,204	18,025
Employee Benefits	2	7	7	8	8	15	12	12	12	13
Health and Human Services	16,111	16,005	17,082	17,878	19,036	22,394	24,690	25,039	27,192	28,761
Public Safety and Corrections	2,914	3,136	3,332	3,554	3,812	4,037	4,067	3,887	3,952	4,939
Transportation	3,194	3,398	3,922	4,612	4,720	3,096	3,065	2,970	3,246	3,909
Natural Resources and Recreation	675	652	712	672	704	713	787	844	1,039	930
Regulatory Services	214	228	235	243	260	270	311	371	345	294
Debt Service:										
Principal	305	338	344	372	346	287	367	211	306	393
Interest	466	463	382	489	59	339	360	335	375	238
Payments for Refunding		368	149	110	702					
Other Financing Fees										2
Capital Outlay	380	355	548	517	389	2,274	2,654	2,830	3,735	3,938
Total Expenditures	38,032	39,172	41,026	44,996	46,995	51,010	54,201	54,910	58,557	63,972
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,575	3,149	5,109	3,033	4,623	(653)	3,250	7,083	8,821	10,043
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfer In	4,826	5,080	5,140	4,838	4,988	6,093	5,793	6,984	7,488	7,343
Transfer Out	(6,684)	(8,066)	(9,975)	(8,802)	(9,070)	(10,870)	(10,937)	(11,842)	(12,248)	(12,433)
Bonds and Notes Issued	218	881	534	919	464	232	383	87	1,242	1,440
Bonds Issued for Advance Refunding		445	241			8	164	58	208	72
Payment to Escrow for Advance Refunding	(88)	(615)	(241)			(8)	(164)	(69)	(208)	(72)
Sale of Capital Assets	19	49	20	16	19	80	21	50	37	17
Increase in Obligations Under Capital Leases	5	1	24	4	1		4			3
Insurance Recoveries										7
Total Other Financing Sources (Uses)	(1,704)	(2,225)	(4,257)	(3,025)	(3,598)	(4,465)	(4,736)	(4,732)	(3,481)	(3,623)
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 871</b>	<b>\$ 924</b>	<b>\$ 852</b>	<b>\$ 8</b>	<b>\$ 1,025</b>	<b>\$ (5,118)</b>	<b>\$ (1,486)</b>	<b>\$ 2,351</b>	<b>\$ 5,340</b>	<b>\$ 6,420</b>
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>										
	2.0%	3.0%	2.2%	2.2%	2.4%	1.3%	1.4%	1.0%	1.2%	1.1%

\* This table is comprised of the following funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent.

Source: State of Texas Financial Statements 1997-2006.

**State of Texas**  
**Statistical Section – Revenue Capacity**  
**Texas Gross Sales / Taxable Sales by Industry**  
**For the Fiscal Years 1996 through 2005\* (Amounts in Millions)**

SIC** Industry	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture, Forestry, and Fishing / Taxable Sales	\$ 2,541 863	\$ 2,685 944	\$ 2,760 1,020	\$ 3,471 1,182	\$ 3,673 1,294	\$ 4,157 1,367	\$ 4,622 1,409	\$ 4,757 1,430	\$ 4,947 1,520	\$ 5,103 1,617
Mining, Natural Resources / Taxable Sales	10,673 1,758	11,538 1,999	10,605 1,754	13,946 1,475	18,950 2,030	18,774 2,815	17,905 2,262	32,411 2,695	49,339 3,014	66,072 4,138
Construction / Taxable Sales	30,037 4,954	33,685 5,485	38,314 6,184	43,000 6,506	49,354 7,370	49,907 7,422	48,958 6,700	48,651 6,780	49,155 7,269	56,036 8,017
Manufacturing / Taxable Sales	128,645 15,005	144,703 15,423	148,577 16,413	149,468 15,975	168,952 17,356	162,146 16,141	161,370 14,531	171,286 14,106	207,383 15,005	250,125 16,784
Transportation, Communications, and Utilities / Taxable Sales	42,416 19,734	54,028 21,523	53,711 23,284	56,594 25,083	67,271 27,652	83,237 28,415	83,671 26,041	89,036 27,897	84,333 29,214	86,484 31,905
Wholesale Trade / Taxable Sales	166,454 14,528	185,770 16,309	195,202 18,017	202,399 18,585	235,244 19,609	230,012 19,172	239,716 19,401	251,311 19,825	317,672 22,266	373,977 24,966
Retail Trade / Taxable Sales	217,430 95,758	233,362 100,924	244,480 108,661	267,714 116,118	298,596 122,849	305,763 127,145	296,008 128,295	307,910 130,309	330,189 136,456	363,543 144,368
Finance , Insurance, and Real Estate / Taxable Sales	2,070 712	2,764 779	3,338 849	2,814 925	2,888 1,062	3,345 1,226	3,316 1,293	3,662 1,213	4,138 1,155	5,686 1,202
Services / Taxable Sales	59,563 20,525	67,492 22,491	74,358 25,184	79,709 27,263	89,239 29,773	89,261 29,742	89,583 28,950	94,823 29,216	101,959 31,324	108,035 32,897
Public Administration / Taxable Sales	898 423	943 435	1,019 450	921 455	973 500	1,094 513	985 520	1,326 606	1,499 704	1,634 751
Nonclassifiable Establishments / Taxable Sales	341 80	287 64	266 60	302 59	436 48	209 35	134 31	109 29	91 24	96 21
Other / Taxable Sales	72 368	2,300 546	1,847 603	1,752 476	368 497	977 838	353 526	489 460	7,240 997	30,337 6,867
TOTAL Gross Sales / Taxable Sales	<u>\$ 661,140</u> <u>\$ 174,708</u>	<u>\$ 739,557</u> <u>\$ 186,922</u>	<u>\$ 774,477</u> <u>\$ 202,479</u>	<u>\$ 822,090</u> <u>\$ 214,102</u>	<u>\$ 935,944</u> <u>\$ 230,040</u>	<u>\$ 948,882</u> <u>\$ 234,831</u>	<u>\$ 946,621</u> <u>\$ 229,959</u>	<u>\$ 1,005,771</u> <u>\$ 234,566</u>	<u>\$ 1,157,945</u> <u>\$ 248,948</u>	<u>\$ 1,347,128</u> <u>\$ 273,533</u>
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

\* Fiscal year 2006 data is not available until mid-year of the the following fiscal year.

\*\* Standard Industrial Classification (SIC) System.

Industry division correspond to the major divisions of the federal Standard Industrial Classification (SIC) with the exception of the "Other" category, which comprises businesses for which the Comptroller's office lacks reliable SIC information.

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations, and refunds to arrive at actual revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports".

**State of Texas**  
**Statistical Section – Revenue Capacity**  
**State Tax Collections and Retail Sales**  
**Last Ten Years**  
**(Amounts in Millions, Except State Tax Collections Per Capita and Percentage Data)**

**State Tax Collections Per Capita, 1997-2006\***

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Tax Collections	\$ 21,071	\$ 22,590	\$ 23,499	\$ 25,226	\$ 27,045	\$ 25,123	\$ 25,939	\$ 27,976	\$ 29,830	\$ 33,867
Percentage Tax Collection Change From Prior Year	6.0%	7.2%	4.0%	7.3%	7.2%	(7.1)%	3.2%	7.9%	6.6%	13.5%
Resident Population	19.7	20.2	20.6	21.0	21.4	21.8	22.1	22.5	22.9	23.5
Percentage Population Change From Prior Year	2.1%	2.5%	2.0%	1.9%	1.9%	1.9%	1.4%	1.8%	1.8%	2.6%
State Tax Collections Per Capita	\$ 1,067	\$ 1,121	\$ 1,143	\$ 1,204	\$ 1,266	\$ 1,155	\$ 1,172	\$ 1,242	\$ 1,301	\$ 1,441

\* This table is comprised of the following funds: General, Special Revenue, Debt Service, and Capital Projects.

Source: Tax collections figures taken from the 1997-2006 State of Texas Financial Statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

**Total Retail Sales, 1997-2006**  
**(Amounts in Millions)**

Year	Retail Sales	Percent Change
1997	\$ 232,711	7.6%
1998	\$ 244,911	5.2%
1999	\$265,073	8.2%
2000	\$298,614	12.7%
2001	\$307,070	2.8%
2002	\$296,008	(3.6)%
2003	\$307,896	4.0%
2004*	\$330,189	7.2%
2005*	\$365,778	10.8%
2006**	\$178,579	7.9%

\* The years 2004 and 2005 have been updated to reflect current data.

\*\* First half of 2006 and the percentage change over the first half of 2005.

Source: Texas Comptroller of Public Accounts.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

**State of Texas**  
**Statistical Section – Revenue Capacity**  
**Texas Gross State Product by Industry**  
**Last Ten Years**  
**(Amounts in Millions of Dollars)**

NAICS* Industry	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture, Forestry, Fishing, % Change	\$ 6,691 (5.0)	\$ 6,052 (9.6)	\$ 6,752 11.6	\$ 6,470 (4.2)	\$ 6,394 (1.2)	\$ 7,457 16.6	\$ 8,394 12.6	\$ 9,688 15.4	\$ 10,587 9.3	\$ 11,007 4.0
Mining, Natural Resources % Change	34,047 9.9	23,237 (31.8)	27,652 19.0	45,182 63.4	44,072 (2.5)	39,219 (11.0)	57,422 46.4	67,832 18.1	82,505 21.6	94,066 14.0
Construction % Change	25,333 8.0	29,568 16.7	32,836 11.1	36,882 12.3	40,259 9.2	41,871 4.0	43,470 3.8	46,263 6.4	50,230 8.6	55,200 9.9
Manufacturing % Change	92,409 7.6	97,929 6.0	91,601 (6.5)	92,981 1.5	92,273 (0.8)	94,462 2.4	93,222 (1.3)	110,172 18.2	121,935 10.7	130,699 7.2
Trade, Transportation, and Utilities % Change	126,618 6.5	135,536 7.0	146,595 8.2	155,785 6.3	160,789 3.2	164,723 2.4	171,109 3.9	183,414 7.2	196,895 7.4	213,934 8.7
Information % Change	27,370 9.3	30,603 11.8	33,295 8.8	35,865 7.7	36,992 3.1	36,531 (1.2)	35,414 (3.1)	38,293 8.1	41,544 8.5	44,948 8.2
Financial Activities % Change	92,684 8.5	99,250 7.1	107,929 8.7	117,200 8.6	125,928 7.4	128,219 1.8	134,745 5.1	141,345 4.9	150,602 6.5	162,804 8.1
Professional and Business Services % Change	56,380 14.5	62,928 11.6	69,387 10.3	73,208 5.5	82,195 12.3	83,937 2.1	87,194 3.9	97,296 11.6	106,849 9.8	118,784 11.2
Educational and Health Services % Change	35,507 5.3	37,182 4.7	39,357 5.8	42,359 7.6	46,797 10.5	51,380 9.8	54,608 6.3	58,572 7.3	62,459 6.6	67,344 7.8
Leisure and Hospitality Services % Change	18,642 10.3	19,960 7.1	21,764 9.0	23,106 6.2	23,993 3.8	25,492 6.2	26,387 3.5	27,976 6.0	29,783 6.5	32,041 7.6
Other Private Services % Change	14,674 5.0	15,922 8.5	16,576 4.1	17,603 6.2	18,106 2.9	18,679 3.2	19,522 4.5	20,451 4.8	21,530 5.3	22,971 6.7
Government, including Schools % Change	69,136 4.5	71,044 2.8	75,249 5.9	80,590 7.1	84,448 4.8	91,512 8.4	96,969 6.0	101,906 5.1	107,484 5.5	114,417 6.5
TOTAL % Change	\$ 599,491 7.7	\$ 629,211 5.0	\$ 668,993 6.3	\$ 727,231 8.7	\$ 762,246 4.8	\$ 783,482 2.8	\$ 828,456 5.7	\$ 903,208 9.0	\$ 982,403 8.8	\$ 1,068,215 8.7
TOTAL (In 2000 Chained Dollars) % Change	\$ 627,501 9.1	\$ 666,590 6.2	\$ 699,101 4.9	\$ 727,229 4.0	\$ 745,325 2.5	\$ 760,588 2.0	\$ 771,082 1.4	\$ 810,510 5.1	\$ 845,459 4.3	\$ 887,750 5.0

\* North American Industry Classification System.

Source: U. S. Bureau of Economic Analysis (BEA). BEA numbers for gross product and real gross product are subject to revision.



**State of Texas**  
**Statistical Section – Debt Capacity**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**  
**(Amounts in Thousands, Except Percentage Data)**

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Debt Service Limit*	\$ 973,113	\$ 1,082,169	\$ 1,162,163	\$ 1,213,667	\$ 1,265,625
Total Net Debt Service Applicable to Limit	<u>517,834</u>	<u>521,518</u>	<u>511,259</u>	<u>492,915</u>	<u>484,448</u>
Legal Debt Service Margin	<u>\$ 455,279</u>	<u>\$ 560,651</u>	<u>\$ 650,904</u>	<u>\$ 720,752</u>	<u>\$ 781,177</u>
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	53.2%	48.2%	44.0%	40.6%	38.3%
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Debt Service Limit*	\$ 1,308,045	\$ 1,318,449	\$ 1,344,627	\$ 1,405,937	\$ 1,518,628
Total Net Debt Service Applicable to Limit	<u>580,012</u>	<u>626,185</u>	<u>622,433</u>	<u>620,989</u>	<u>545,725</u>
Legal Debt Service Margin	<u>\$ 728,033</u>	<u>\$ 692,264</u>	<u>\$ 722,194</u>	<u>\$ 784,948</u>	<u>\$ 972,903</u>
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	44.3%	47.5%	46.3%	44.2%	35.9%

**Legal Debt Service Margin Calculation for Fiscal Year 2006**

Unrestricted General Revenue FY 2004	\$28,363,860
Unrestricted General Revenue FY 2005	\$30,005,851
Unrestricted General Revenue FY 2006	\$32,747,986
Debt Service Limit*	\$ 1,518,628
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from GR	388,071
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	<u>157,654</u>
Total Net Debt Service Applicable to Limit	<u>545,725</u>
Legal Debt Service Margin	<u>\$ 972,903</u>

\* Debt Service Limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the General Revenue Fund may not exceed five percent of an amount equal to the average of the unrestricted General Revenue Fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board.

**State of Texas**  
**Statistical Section – Debt Capacity**  
**Ratio of Outstanding Debt by Type**  
**Last Five Fiscal Years\***  
(Amounts in Millions, Except Percentage Data and Per Capita)

Fiscal Year	Governmental Activities			Business-Type Activities			(in Millions) Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Bonds	Notes and Loans	General Obligation Bonds	Revenue Bonds	Notes and Loans			
2002	\$3,081	\$ 809	\$ 98	\$2,671	\$8,264	\$1,607	\$16,530	2.6%	\$760
2003	3,185	739	103	2,599	9,277	1,889	17,792	2.7%	804
2004	3,116	679	116	2,719	10,844	1,920	19,394	2.8%	861
2005	3,972	632	262	2,815	11,749	1,614	21,044	2.8%	918
2006	4,479	1,152	331	2,739	12,378	1,741	22,820	2.8%	971

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the outstanding debt information is available only beginning in 2002.

Source: 2002-2006 State of Texas Financial Statements.

**State of Texas**  
**Statistical Section – Debt Capacity**  
**Ratio of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years\***  
**(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Bonded Debt (General Obligation Bonds Only)	\$ 4,931	\$ 5,000	\$ 4,920	\$ 5,143	\$ 5,271	\$ 5,756	\$ 5,784	\$ 5,835	\$ 6,787	\$ 7,218
Percentage Bonded Debt Change From Prior Year	(0.6)%	1.4%	(1.6)%	4.5%	2.5%	9.2%	0.5%	0.9%	16.3%	6.4%
Tax Collections	21,071	22,590	23,499	25,226	27,045	25,123	25,939	27,976	29,830	33,867
Percentage Bonded Debt to Tax Collections	23.4%	22.1%	20.9%	20.4%	19.5%	22.9%	22.3%	20.9%	22.8%	21.3%
Resident Population	19.7	20.2	20.6	21.0	21.4	21.8	22.1	22.5	22.9	23.5
General Bonded Debt Per Capita	\$ 250	\$ 248	\$ 239	\$ 245	\$ 247	\$ 265	\$ 262	\$ 259	\$ 297	\$ 307

\* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators, and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collections are taken from the 1997-2006 State of Texas Financial Statements.  
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years.

**State of Texas**  
**Statistical Section – Debt Capacity**  
**Pledged Revenue Bond Coverage**  
**Last Five Fiscal Years\***  
**(Amounts in Thousands, Except Ratio Data)**

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>GOVERNMENTAL ACTIVITIES</b>					
Pledged Revenue Bond Amount	\$ 93,796	\$ 93,942	\$ 101,178	\$ 150,119	\$ 81,011
Operating Expenditures	2,257	11,772	2,525	15,540	1,452
Net Available Revenue	<u>\$ 91,539</u>	<u>\$ 82,170</u>	<u>\$ 98,653</u>	<u>\$ 134,579</u>	<u>\$ 79,559</u>
Debt Service –					
Principal	\$ 70,230	\$ 74,106	\$ 77,058	\$ 84,087	\$ 86,056
Interest	41,996	37,478	33,314	26,115	25,764
Total Debt Service	<u>\$ 112,226</u>	<u>\$ 111,584</u>	<u>\$ 110,372</u>	<u>\$ 110,202</u>	<u>\$ 111,820</u>
Coverage Ratio	0.8	0.7	0.9	1.2	0.7
<b>BUSINESS-TYPE ACTIVITIES</b>					
Pledged Revenue Bond Amount	\$ 7,236,922	\$ 6,401,630	\$ 7,049,189	\$ 8,369,686	\$ 9,088,841
Operating Expenditures	207,852	536,191	885,294	839,699	364,043
Net Available Revenue	<u>\$ 7,029,070</u>	<u>\$ 5,865,439</u>	<u>\$ 6,163,895</u>	<u>\$ 7,529,987</u>	<u>\$ 8,724,798</u>
Debt Service –					
Principal	\$ 242,174	\$ 490,032	\$ 440,036	\$ 532,128	\$ 623,346
Interest	355,997	371,983	492,366	503,958	537,104
Total Debt Service	<u>\$ 598,171</u>	<u>\$ 862,015</u>	<u>\$ 932,402</u>	<u>\$ 1,036,086</u>	<u>\$ 1,160,450</u>
Coverage Ratio	11.8	6.8	6.6	7.3	7.5
<b>COMPONENT UNITS</b>					
Pledged Revenue Bond Amount	\$ 25,863	\$ 17,246	\$ 28,675	\$ 13,524	\$ 13,704
Operating Expenditures	625	47	536	225	264
Net Available Revenue	<u>\$ 25,238</u>	<u>\$ 17,199</u>	<u>\$ 28,139</u>	<u>\$ 13,299</u>	<u>\$ 13,440</u>
Debt Service –					
Principal	\$ 13,000	\$ 18,230	\$ 26,685	\$ 17,934	\$ 25,630
Interest	6,875	6,229	4,004	5,185	7,336
Total Debt Service	<u>\$ 19,875</u>	<u>\$ 24,459</u>	<u>\$ 30,689</u>	<u>\$ 23,119</u>	<u>\$ 32,966</u>
Coverage Ratio	1.3	0.7	0.9	0.6	0.4
Total Combined Coverage Ratio	9.8	6.0	5.9	6.6	6.8

\* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the pledged revenue bond information is available only beginning in 2002

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues, and other sources.  
Operating expenditures include capital outlay expenditures.

Source: 2002-2006 State of Texas Financial Statements.

**State of Texas**  
**Statistical Section – Demographic and Economic Information**  
**Top 10 Private Employers in Texas\***  
**Last Six Years\*\***

**2000**

Administaff Companies, Inc.  
Albertsons, Inc.  
American Airlines, Inc.  
Continental Airlines, Inc.  
HEB Grocery Company LP  
Kroger Texas LP  
Sears Roebuck & Company  
Southwestern Bell  
United Parcel Service, Inc.  
Wal-Mart Associates, Inc.

**2001**

Administaff Companies, Inc.  
Albertsons, Inc.  
American Airlines, Inc.  
HEB Grocery Company LP  
Kroger Texas LP  
Sears Roebuck & Company  
Southwestern Bell  
Target Stores Division  
United Parcel Service, Inc.  
Wal-Mart Associates, Inc.

**2002**

Administaff Companies II LP  
American Airlines, Inc.  
Continental Airlines, Inc.  
HEB Grocery Company LP  
Home Depot USA, Inc.  
Kroger Texas LP  
Southwestern Bell Telephone LP  
Target Stores Division  
United Parcel Service, Inc.  
Wal-Mart Associates, Inc.

**2003**

Administaff Companies II LP  
American Airlines, Inc.  
HEB Grocery Company LP  
Home Depot USA, Inc.  
Kroger Texas LP  
Lockheed Martin Corp  
Southwestern Bell Telephone LP  
Target Stores Division  
United Parcel Service, Inc.  
Wal-Mart Associates, Inc.

**2004**

Administaff Companies II LP  
American Airlines, Inc.  
Continental Airlines, Inc.  
HEB Grocery Company LP  
Home Depot USA, Inc.  
Kroger Texas LP  
Southwestern Bell Telephone LP  
Target Stores Division  
United Parcel Service, Inc.  
Wal-Mart Associates, Inc.

**2005**

Administaff Companies II LP  
American Airlines, Inc.  
Continental Airlines, Inc.  
HEB Grocery Company LP  
Home Depot USA, Inc.  
Kroger Texas LP  
Southwestern Bell Telephone LP  
Target Stores Division  
United Parcel Service, Inc.  
Wal-Mart Associates, Inc.

\* Employers are listed alphabetically, with no ranking intended. The number of employees is not disclosed due to confidentiality.

\*\* The year 2006 and years prior to 2000 are not available.

Source: Prepared by the Labor Market and Career Information Department of the Texas Workforce Commission.

# State of Texas

## Statistical Section – Demographic and Economic Information

### Texas and U.S. Selected Statistics

#### Last Ten Years

#### Texas and U.S. Population, Total Personal Income and Per Capita Income Last Ten Years

Year	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
1997	19,740	2.1%	272,651	1.2%	466,182	9.0%	6,907,332	6.1%	23,616	6.8%	25,334	4.8%
1998	20,158	2.1%	275,851	1.2%	507,682	8.9%	7,415,709	7.4%	25,185	6.6%	26,883	6.1%
1999	20,558	2.0%	279,041	1.2%	539,661	6.3%	7,796,137	5.1%	26,251	4.2%	27,939	3.9%
2000	20,952	1.9%	282,217	1.1%	593,139	9.9%	8,422,074	8.0%	28,309	7.8%	29,843	6.8%
2001	21,358	1.9%	285,226	1.1%	619,642	4.5%	8,716,992	3.5%	29,012	2.5%	30,562	2.4%
2002	21,762	1.9%	288,126	1.0%	626,604	1.1%	8,872,871	1.8%	28,793	(0.8)%	30,795	0.8%
2003	22,134	1.7%	290,796	0.9%	649,680	3.7%	9,150,908	3.1%	29,352	1.9%	31,468	2.2%
2004	22,518	1.7%	293,638	1.0%	691,245	6.4%	9,717,173	6.2%	30,697	4.6%	33,092	5.2%
2005	22,929	1.8%	296,507	1.0%	745,329	7.8%	10,224,761	5.2%	32,506	5.9%	34,484	4.2%
2006*	23,508	2.5%	299,398	1.0%	807,560	8.3%	10,896,032	6.6%	34,353	5.7%	36,393	5.5%

\* 2006 personal income estimates used three quarters of actual data. The fourth quarter is estimated using the average growth rate during the first three quarters.

Source: U.S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

### Texas and U.S. Employment and Unemployment Rates Last 10 years (Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
1997	8,608	4.3%	122,767	2.6%	5.4%	4.9%
1998	8,940	3.9%	125,924	2.6%	4.8%	4.5%
1999	9,160	2.5%	128,992	2.4%	4.6%	4.2%
2000	9,427	2.9%	131,791	2.2%	4.2%	4.0%
2001	9,514	0.9%	131,832	0.0%	4.8%	4.7%
2002	9,416	(1.0)%	130,342	(1.1)%	6.3%	5.8%
2003	9,370	(0.5)%	129,993	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,424	1.1%	6.0%	5.5%
2005*	9,735	2.5%	133,459	1.5%	5.3%	5.1%
2006*	9,975	2.5%	135,352	1.4%	5.0%	4.6%

\* 2005 and 2006 numbers are subject to benchmark revisions. 2006 numbers include an estimate for December.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts, and U.S. Bureau of Labor Statistics.  
Historical data have been revised.

**State of Texas**  
**Statistical Section – Operating Information**  
**Full-Time Equivalent Employees by Function**  
**Last Ten Fiscal Years**

<b>FUNCTION</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
General Government	13,175	12,837	12,950	12,981	13,472	13,362	13,607	13,034	13,435	12,999
Education	115,040	117,603	119,286	122,009	124,871	129,767	133,857	134,456	140,367	144,636
Employee Benefits	324	309	306	313	309	314	315	302	292	294
Teacher Retirement Benefits	379	379	380	397	418	437	441	440	451	444
Health and Human Services	62,688	59,088	56,844	54,923	53,023	53,420	52,238	49,288	48,389	49,097
Public Safety and Corrections	50,616	52,887	53,510	52,699	52,133	52,405	53,231	51,473	51,397	51,564
Transportation	15,001	14,403	14,553	14,751	14,926	14,845	14,717	14,078	14,551	14,744
Natural Resources and Recreation	8,166	8,016	7,971	8,062	8,172	8,370	8,299	7,990	8,053	8,018
Regulatory Services	3,838	3,944	3,960	3,931	3,933	3,973	3,882	3,779	3,882	3,869
Total FTE's	<u>269,227</u>	<u>269,466</u>	<u>269,760</u>	<u>270,066</u>	<u>271,257</u>	<u>276,893</u>	<u>280,587</u>	<u>274,840</u>	<u>280,817</u>	<u>285,665</u>
Percentage Change	1.0%	0.1%	0.1%	0.1%	0.4%	2.1%	1.3%	(2.0)%	2.2%	1.7%

Source: Texas State Auditor's Office

**State of Texas**  
**Statistical Section – Operating Information**  
**Capital Asset Statistics by Function**  
**Last Three Fiscal Years**

<b>Function</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>GENERAL GOVERNMENT</b>			
Number of TBPC Owned Facilities	74	71	75
State Real Property Inventory in Acres	2,306,729	2,446,418	2,425,037
<b>EDUCATION</b>			
Number of School Districts	1,037	1,037	1,033
Number of Higher Education Institutions	145	145	145
<b>HEALTH AND HUMAN SERVICES</b>			
Number of State Mental Health Facilities	39	39	39
Number of State Hospitals	10	10	10
<b>PUBLIC SAFETY AND CORRECTIONS</b>			
Number of State Prisons – TDCJ only	106	106	106
Number of available beds (capacity)	154,486	155,277	156,520
Number of authorized vehicular state patrol units	1,095	1,095	1,195
<b>TRANSPORTATION</b>			
Centerline Miles of Highways*	79,363	79,645	79,696
Number of Bridges**	32,287	32,421	33,322
<b>NATURAL RESOURCES AND RECREATION</b>			
Number of State Parks Managed	117	117	112
Number of Park Acreage	601,590	610,319	608,716

\* Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

\*\* Number of bridges is the bridges owned by the state. TXDOT also works on off-system bridges (county -and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites



**State of Texas**  
**Statistical Section – Operating Information**  
**Operating Indicators by Function**  
**Last Three Fiscal Years**

Function	2004	2005	2006
<b>GENERAL GOVERNMENT / REGULATORY SERVICES</b>			
Number of Tax Returns Processed	3,837,819	3,796,940	3,904,659
Number of Licenses Issued (2006 is Estimated)	1,308,617	1,494,693	1,387,504
<b>EDUCATION</b>			
Average Daily School Attendance (ADA)*	4,015,213	4,099,615	4,205,729
Percent of Students Passing TAKS Test*	58.0%	62.0%	67.0%
Texas Higher Education Enrollments	1,173,109	1,184,373	1,211,582
Higher Education Degrees Awarded**	150,767	185,326	NA
<b>HEALTH AND HUMAN SERVICES</b>			
Number of Medicaid Clients Served	2,683,227	2,779,373	2,873,786
Number of TANF Clients Served	264,135	219,045	172,776
Number of Immunizations	7,101,606	6,381,835	11,617,682
<b>PUBLIC SAFETY AND CORRECTIONS</b>			
Number of New Prison Population	77,315	73,815	74,170
Number of Prison Population Released	72,130	69,846	71,214
Average Daily Prison Population	149,217	151,448	151,734
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,628	1,628
<b>TRANSPORTATION</b>			
Number of Construction Contracts Processed For Letting	950.00	989.00	1,075.00
Number of Lane Miles Receiving Roadway			
Surface Improvements: – By Contract	17,971	18,554	15,811
– Via State Sources	7,341	7,318	6,406
Number of Vehicles Registered	18,822,830	19,624,460	20,609,866
<b>NATURAL RESOURCES AND RECREATION</b>			
Number of State Parks Visits (In Millions)	5	5	5
Number of Parks and Wildlife Licenses Issued***	3,038,088	2,626,957	2,625,225

\* The "Percent of Students Passing TAKS Test" is from the 2004-2005 TEA AEIS report at: <<http://www.tea.state.tx.us/perfreport/aeis/2005/state.html>>  
These scores represent the "TAKS Met 2005 Standard (Sum of All Grades Tested)( Standard Accountability Indicator)"  
The 2004 scores have been adjusted by TEA to be comparable to 2005 scores. All ADA figures are from Table 88 of LBB Fiscal Size-Up 2006-2007.

\*\* The 2006-07 degrees conferred will not be available until later in 2007.

\*\*\* Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales, and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites.





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